UNITED STATES
PATENT AND
TRADEMARK OFFICE

PERFORMANCE AND ACCOUNTABILITY REPORT FOR FISCAL YEAR 2002

CELEBRATING THE PAST AND EMBRACING THE FUTURE

FINANCIAL HIGHLIGHTS

(Dollars In Thousands)	% Change 2002 over 2001	September 30, 2002	September 30, 2001
Fund Balance with Treasury	0.3%	$ 926,130	$ 923,361
Property and Equipment, net	(7.3)%	119,184	128,598
Other Assets	143.4%	50,221	20,635
Total Assets	2.1%	$ 1,095,535	$ 1,072,594
Deferred Revenue	24.3%	$ 465,974	$ 374,988
Accounts Payable	24.6%	74,982	60,199
Accrued Payroll, Benefits, and Leave	(15.8)%	68,042	80,768
Other Liabilities	(2.8)%	75,849	78,051
Total Liabilities	15.3%	$ 684,847	$ 594,006
Net Position	(14.2)%	410,688	478,588
Total Liabilities & Net Position	2.1%	$ 1,095,535	$ 1,072,594
Total Cost	14.2%	$ 1,160,995	$ 1,016,627
Total Earned Revenue	2.0%	(1,061,347)	(1,040,258)
Net Cost/(Income) from Operations	(521.7)%	$ 99,648	$ (23,631)
Total Outlays/(Collections), Net	(109.1)%	$ 10,055	$ (110,654)
Federal Personnel:	8.0%	6,939	6,426
Contractor Personnel, approx.:	42.9%	4,000	2,800
Disbursements by EFT	---	99%	99%
On-Time Payments to Vendors	---	99%	99%

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Web address for the USPTO Performance and Accountability Report

http://www.uspto.gov/web/offices/com/annual

MESSAGE FROM THE UNDER SECRETARY OF COMMERCE FOR INTELLECTUAL PROPERTY AND DIRECTOR OF THE U. S. PATENT AND TRADEMARK OFFICE

This was a momentous year for the United States Patent and Trademark Office (USPTO) on a variety of fronts. We launched an aggressive and comprehensive quality assurance program focusing on all stages of the examination process, as well as the recruitment and training of examiners and managers. We expanded programs for independent inventors through our newly created Inventor Assistance Office, and continued to work with our customers, through roundtables and partnerships, to improve the quality of the services we offer. We established patent electronic filing partnerships to assist us in moving toward a full paperless patent process by the end of 2004, and continued to expand the number of trademark applications and documents that can be filed electronically to permit nearly all trademark communications to be conducted in this medium. We also continued our work through a number of domestic and international fora to streamline and strengthen protection for patents, trademarks, and copyrights at home and abroad. In addition, for the tenth consecutive year, we received an unqualified audit opinion on our annual financial statements.

The achievements of the past year are particularly fitting given that 2002 marked the bicentennial of the creation of the United States Patent Office. For two hundred years, the United States Patent and Trademark Office has served as the clearinghouse for American innovation -- issuing more than six and a half million patents and registering more than two million trademarks. In turn, these rights – the basic right to benefit from a product of one's thoughts and ideas – have played a critical role in America's evolution into the most technologically advanced, economically vibrant power on earth.

The celebration of the USPTO's bicentennial, however, comes at a time of great challenge for the USPTO. An explosion of patent filings and increasingly complex technology threatens to overwhelm our agency. Patent pendency rates now average over two years, and without significant changes to the way patent applications are processed, pendency soon will reach four years. The failure to provide quality examination and processing in a timely fashion will greatly disadvantage U.S. inventors and businesses.

In order to confront these problems head-on, I have reached out to our customers to identify their needs and hear their ideas for reengineering a better USPTO. I also initiated an aggressive top-to-bottom review of the agency to identify innovative ways to improve quality and reduce pendency. In June 2002, based upon that review and those discussions, I put forward a comprehensive plan – the *21st Century Strategic Plan* – that will transform the agency into an Information Age, e-commerce based organization that responds rapidly to changing market conditions.

MESSAGE FROM THE DIRECTOR

The *21st Century Strategic Plan* will boost productivity and substantially cut the size of our inventory while ensuring that the patents issued and the trademarks registered are of the highest quality. This road map for the future is built on the premise that American innovators need to obtain enforceable intellectual property (IP) rights here and abroad as seamlessly and cost-effectively as possible.

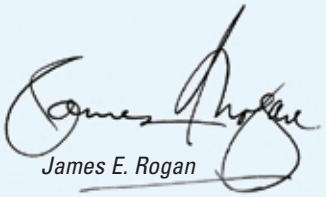
Our Strategic Plan reflects the values of President Bush's Management Agenda. With the support of Congress, it will transform the agency into a quality-driven, highly-productive, cost-effective organization to better support America's innovators and entrepreneurs.

For over two centuries, America has profited immeasurably from the strength of our intellectual property system. Today IP-based enterprises represent the largest single sector of the American economy – almost five percent of the Gross Domestic Product – and employ over four million Americans. More than 50 percent of U.S. exports now depend on some form of IP protection. Perhaps even more telling, U.S. IP exports are greater than the exports of the automobile, agriculture and aircraft industries combined.

Around the world, a high correlation exists between a country's economic strength and the vitality of its IP protection. Nowhere is this fact more apparent than in the United States. A quality-focused, efficient and cost-effective Patent and Trademark Office is essential to maintaining our strong and vibrant economy in years to come.

This *Performance and Accountability Report* summarizes the USPTO's achievements and challenges for fiscal year 2002. I am pleased to certify, with reasonable assurance that, except for the one material weakness regarding information technology security specifically identified in the management control section of this report, our agency's systems of management control, taken as a whole, comply with Section 2 of the Federal Managers' Financial Integrity Act of 1982. Our agency is also in substantial compliance with applicable Federal accounting standards and the U.S. General Ledger at the transaction level and with Federal financial system requirements. Accordingly, our agency fully complies with Section 4 of the Federal Managers' Financial Integrity Act of 1982, with no material non-conformances. In addition, we are confident that the USPTO's financial and performance data is reliable, accurate and consistent, as we improve our ability to measure progress toward performance objectives.

Commerce Secretary Donald L. Evans administers the oath of office to Judge Rogan as Under Secretary of Commerce and Director of the United States Patent and Trademark Office. Twin daughters Dana and Claire hold the bible for their dad as wife Christine proudly looks on.



James E. Rogan

Under Secretary of Commerce for Intellectual Property and

Director of the United States Patent and Trademark Office

December 30, 2002

MESSAGE FROM THE ACTING CHIEF FINANCIAL OFFICER

"*The world hates change, yet it is the only thing that has brought progress.*" As the USPTO enters a third century of fostering American innovation, this quote from Charles F. Kettering, American inventor and co-holder of more than 140 patents, clearly conveys the great value of change, while also reflecting the inherent tensions and challenges it creates.

The USPTO's aggressive and far-reaching *21st Century Strategic Plan* revolves around the vision of: *"a quality-focused, highly-productive, responsive organization supporting a market-driven intellectual property system for the 21st Century"* and calls for fundamental changes and radical redesign of USPTO operations. In particular, the USPTO must emphasize agility, capability, and productivity in all its business units and organizations. Achieving the Strategic Plan will require a variety of skills and tools, not the least of which will be sound planning, administration, and financial management.

The USPTO's Office of the Chief Financial Officer and Chief Administrative Officer has been under its own transformation for the past several years, from an operation primarily focused on payment processing and compliance, to one that is committed to excellence in management and administration. In this regard, we are well positioned to assist the USPTO in becoming the highest quality, most efficient IP organization in the world.

Building a foundation of control and accountability has been a key component of our transformation. I am proud to say that once again the USPTO received an unqualified audit opinion on its annual financial statements. This is the tenth consecutive clean audit opinion, and also the sixth consecutive year in which the auditors' noted no material weaknesses in the USPTO's internal control structure. These accomplishments epitomize the integrity and pride with which we carry out our daily fiscal responsibilities.

During the second quarter of FY 2002, the Office of the Inspector General (OIG) reviewed the USPTO Information Technology (IT) Security Program and reported that none of USPTO's critical information systems were certified and accredited. Although the USPTO made great strides in this past fiscal year to establish a robust IT Security Program and certify and accredit its critical information systems, none of its information systems were certified and accredited by the end of the fiscal year. The USPTO has declared a material weakness in recognition of the need for compliance with Government guidance on IT Security and reconfirms its commitment to the protection of our Nation's intellectual capital information assets. This corrective action plan for addressing this weakness in FY 2003 is discussed in the management controls section of this report.

Building further on this solid foundation, the CFO organization has significantly improved its management tools for business analysis and decision-making. For example, our cost accounting system continues to play a growing role in the day-to-day financial management of our business areas and administrative functions. With this system, we have a better understanding

MESSAGE FROM THE ACTING CHIEF FINANCIAL OFFICER

of the costs of our processes and products, and can distinguish between activities that create or add value and those that do not. This allows us to better integrate cost and performance information into our planning and budget processes, making for far more informed resource decisions.

As the CFO organization considers its role in meeting the Strategic Plan's vision, we are acutely aware of the continuing need to foster strong partnerships with business area managers. To this end, we are particularly active in developing customer service standards and training, and in integrating financial and performance information with workflow systems and production reports. We constantly seek new opportunities to better serve business managers and gain their support either through financial and administrative systems training, assisting in evaluating procedures and controls, analyzing costs and benefits, moving certain functions to business areas to achieve better day-to-day support, and in supporting our business areas' e-Government efforts.

Maximizing efficiency through outsourcing and contracting continues to be an on-going pursuit within the USPTO. Currently, the USPTO has nearly 4,000 contract personnel supporting a wide variety of technical, clerical, and administrative functions. USPTO's vast outsourcing and contracting experience will be critical to addressing the issues of structuring new contracts for services never before envisioned, such as contracts for private sector companies to perform patent search and classification, and agreements with other intellectual property organizations.

With the forthcoming move to the Carlyle campus, USPTO will need to address the logistics of physically moving over 10,000 employees and contractors, and their related furnishings and equipment. This move also will impact how to provide security for both employees and physical property at two venues during the transition period. The first phase of occupancy is scheduled to occur in mid-2003 and full occupancy is scheduled for fall 2005.

I continue to believe that the ultimate key to success in managing change and confronting challenge is people. USPTO remains committed to attracting and retaining the most highly skilled, well trained, motivated, and productive workforce possible. We will play a major role in attracting, training, and retaining talented and imaginative people to improve service to inventors. We will also be called upon to assist senior management and the business areas in getting the right people in the right spots, and work to create a more close-knit and dedicated workforce. In summary, what we do today greatly impacts what we can achieve tomorrow. I am confident that we have laid the foundation to live up to the challenges ahead.

Sandra L. Weisman
Acting Chief Financial Officer
December 30, 2002

Management Discussion and Analysis

MISSION AND ORGANIZATION OF THE UNITED STATES PATENT AND TRADEMARK OFFICE

USPTO VISION

The USPTO will lead the way in creating a quality-focused, highly-productive, responsive organization supporting a market-driven intellectual property system for the 21st Century.

MISSION STATEMENT

The USPTO mission is to ensure that the intellectual property system contributes to a strong global economy, encourages investment in innovation, fosters entrepreneurial spirit, and enhances the quality of life for everyone.

For over 200 years, the basic role of the United States Patent and Trademark Office (USPTO) has remained the same: to promote the progress of science and the useful arts by securing for limited times to inventors the exclusive right to their respective discoveries (Article 1, Section 8 of the United States Constitution). Under this system of protection, American industry has flourished. New products have been invented, new uses for inventions discovered, and employment opportunities created for millions of Americans. Patents and trademarks have long protected American creativity and ingenuity—the first patent was issued in 1790 for a method of making potash fertilizer, and the oldest active trademark registered is SAMSON with a design for "cords, lines, and ropes," which was originally registered in 1884. The strength and vitality of our economy depend directly on the effectiveness of the mechanisms that protect new ideas and investments in innovation and creativity. The continued demand for patents and trademark registrations underscores the ingenuity of U.S. inventors and entrepreneurs. The USPTO is at the cutting edge of our Nation's technological progress and achievement.

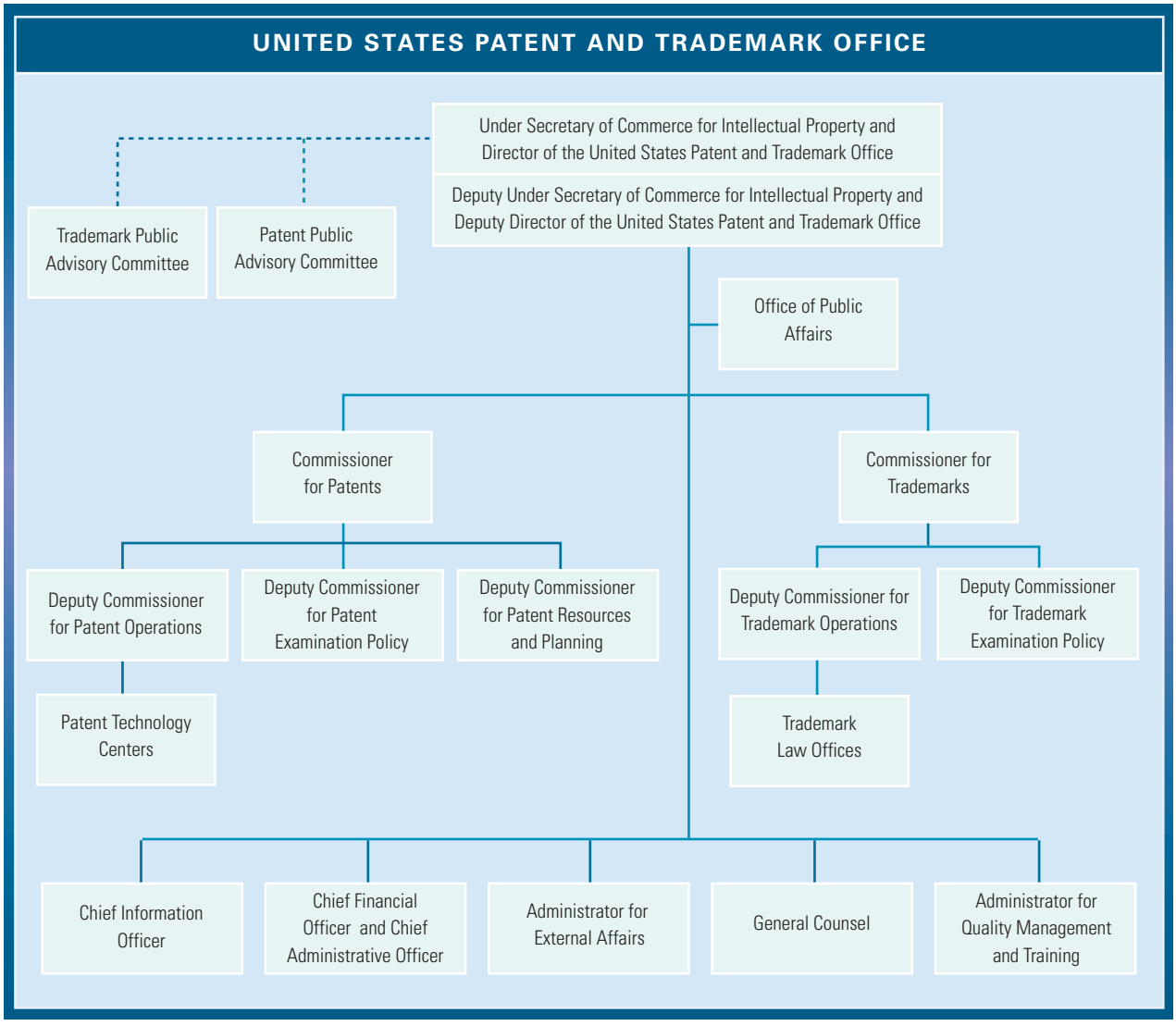
The primary services provided by USPTO are processing patent and trademark applications and disseminating patent and trademark information. Through the issuance of patents, we encourage technological advancement by providing incentives to invent, invest in, and disclose new technology worldwide. Through the registration of trademarks, we assist businesses in protecting their investments, promoting quality goods and services, and safeguarding consumers against confusion and deception in the marketplace. By disseminating both patent and trademark information, we promote an understanding of IP protection and facilitate the development and sharing of new technologies worldwide.

LOCATION, ORGANIZATIONAL STRUCTURE AND WORKFORCE

The USPTO is a non-commercial Federal entity, an agency in the U.S. Department of Commerce (DOC). The office occupies a combined total of over 1,400,000 square feet in 18 buildings in the Crystal City neighborhood of Arlington, Virginia. In addition, we have two storage facilities in Springfield, Virginia and Alexandria, Virginia and leased storage space in Boyers, Pennsylvania. The USPTO workforce is comprised of 6,939 Federal employees, including 3,538 patent examiners and 258 trademark examining attorneys. In addition, we have approximately 4,000 contract employees.

The USPTO has evolved into a unique Government agency. Since 1991-- under the Omnibus Budget Reconciliation Act (OBRA) of 1990 -- the USPTO has operated in much the same way as a private business, providing valued products and services to our customers in exchange for fees which are used to fund our operations. The powers and duties of the USPTO are vested in an Under Secretary of Commerce for Intellectual Property and Director of the USPTO, who consults with the Patent Public Advisory Committee and the Trademark Public Advisory Committee. The USPTO has two major business lines – Patents and Trademarks – as shown in the following organization chart:

USPTO ORGANIZATION CHART


UNITED STATES PATENT AND TRADEMARK OFFICE
Under Secretary of Commerce for Intellectual Property and Director of the United States Patent and Trademark Office
Deputy Under Secretary of Commerce for Intellectual Property and Deputy Director of the United States Patent and Trademark Office
Trademark Public Advisory Committee
Patent Public Advisory Committee
Office of Public Affairs
Commissioner for Patents
Commissioner for Trademarks
Deputy Commissioner for Patent Operations
Deputy Commissioner for Patent Examination Policy
Deputy Commissioner for Patent Resources and Planning
Deputy Commissioner for Trademark Operations
Deputy Commissioner for Trademark Examination Policy
Patent Technology Centers
Trademark Law Offices
Chief Information Officer
Chief Financial Officer and Chief Administrative Officer
Administrator for External Affairs
General Counsel
Administrator for Quality Management and Training

PERFORMANCE GOALS AND RESULTS

THE AFTERMATH OF 9/11

Fiscal year 2002 was a tumultuous year in the life of the Nation, and like many citizens and organizations in this country, the USPTO found itself acting in response to a series of previously unthinkable challenges.

In support of the efforts to respond to the attacks of September 11, 2001, the USPTO conducted a major application file reconstruction project that resulted in over 3,000 patent and 2,000 trademark applications being copied and provided to law firms formerly occupying the World Trade Centers. This service was provided at no cost to the firms.

The Anthrax mailings that followed several weeks later created significant mail processing disruptions for Patents and Trademarks. Like all Federal agencies in the Washington, DC metropolitan area, much of the USPTO's mail, including all patent correspondence, was processed at the Brentwood postal facility, which was closed after the discovery of Anthrax at that location. Out of concern for its employees and the public, the agency contacted the Centers for Disease Control and Prevention and took appropriate precautions to ensure against Anthrax contamination within the USPTO mail-room operations. Any mail that was at the Brentwood facility at the time of the Anthrax discovery was transported to a secure quarantined site and was irradiated before forwarding to the USPTO. As a result, significant time delays occurred because the USPTO did not receive any mail deliveries for 12 business days. This was a challenging undertaking since Patents receives about 4,000 letters and packages per day.

Under Secretary Rogan briefs employees and answers questions regarding the 21st Century Strategic Plan

Unfortunately, the closing of the Brentwood facility and subsequent precautionary measures resulted in significant mail backlogs and delays that negatively impacted our operations. The USPTO had to adopt new procedures for handling the irradiated mail as the decontamination process in some cases left papers yellowed and brittle, damaged computer disks, and blackened labels. In these cases, senders were contacted to supply duplicate correspondence when necessary and no applications were held abandoned without the agency first calling the applicant to ensure that a reply had not been delayed in the mail. In addition, the USPTO advocated the use of facsimile transmissions for any correspondence with the organization.

USPTO STRATEGIC PLAN

The Government Performance and Results Act (GPRA) requires that agencies plan and measure the performance of their programs. In carrying out GPRA, the USPTO prepares a Strategic Plan, an Annual Performance Plan, and an Annual Performance Report. The USPTO began FY 2002 guided by the Strategic Plan that was developed in 1994 and updated in 1999 to include the period 1999-2004. While the mission, goals and strategies have served us well, the environment in which the IP system operates worldwide has changed dramatically. There are an estimated seven million pending patent applications in the world's examination pipeline. Technology has become increasingly complex, and customer demands for higher quality products and services have escalated. This dynamic, along with Congressional concerns about the USPTO's ability to continue to operate under a traditional business model, led to the development of the *21st Century Strategic Plan.*

The *21st Century Strategic Plan* is a far-reaching and aggressive plan designed to transform the USPTO into an organization that is responsive to the global economy in which it operates. After implementation of the Strategic Plan, market forces will drive our business model, geography and time will be irrelevant when doing business with the Agency, products and services will be tailored to customer needs, and examination will be our core expertise. The Strategic Plan is centered around three long-term crosscutting strategic goals:

- ***Agility*** – Address the 21st century economy by becoming a more agile organization. We will create a flexible organization whose leadership and work processes can handle the increasing expectations of our markets, the growing complexity and volume of our work, and the globalization that characterizes the 21st century economy. We will work with our partners, both bilaterally and multilaterally, to create a stronger, better-coordinated and more streamlined framework for protecting intellectual property around the world. We will transform the USPTO workplace by radically reducing labor-intensive paper processing.

- ***Capability*** – Enhance quality through workforce and process improvements. We will make patent and trademark quality our highest priority by emphasizing quality in every component of the plan. Through timely issuance of high-quality patents and trademarks, we will respond to market forces by promoting advances in technology, expanding business opportunities and creating jobs.

- ***Productivity*** – Accelerate processing times through focused examination. We will work to reduce patent and trademark pendency, substantially cut the size of our backlog of work, and recover our investments in people, processes and technology.

The Strategic Plan was made public in June 2002. At the same time, the USPTO proposed a reallocation of 2003 resources to fund the Plan and the Administration put forth proposed legislation to restructure the USPTO's fee schedule to generate additional fee income needed to make critical investments in support of the Plan. Although the USPTO was applauded for putting forth an innovative and comprehensive plan, a number of key components – many related to the USPTO's fee structure — generated controversy. The USPTO has listened to stakeholders and applicants and is consulting with the Patent and Trademark Public Advisory Committees to identify alternative actions that would be amenable to applicants and the public while addressing the challenges the Agency is facing in the 21st century.

Under Secretary Rogan and USPTO CIO Doug Bourgeois (far right) are joined by e-filing partners (left to right) Robert Simpson, President, Legalstar; Jim Shay, President and CEO, First to File Inc.; Eric Patrick, CEO, Aspen Grove, Inc.; Walter Walvick, President, Autodocs, LLC; and Ken Crutchfield, Vice President, LexisNexis .

In FY 2002, the USPTO began to gradually move forward in adopting the goals and objectives put forth in the Strategic Plan, to the extent they were consistent with Congressional intent and supported by our stakeholders and applicants. The USPTO Strategic Plan can be found on the USPTO web site: http://www.uspto.gov/web/offices/com/strat2001

USPTO PERFORMANCE GOALS

The USPTO Performance Plan, which is included in our annual budget submission, has four core goals and eight performance measures reflected in the charts below:

PATENT PERFORMANCE SUMMARY

Performance Goal	Performance Measure	FY 2001 Actual	FY 2002 Target	FY 2002 Actual
Enhance the quality of our products and services	Improve quality of patents through reducing the error rate	5.4%	5.0%	4.2%
	Increase overall customer satisfaction	64%	67%	63%
Minimize application processing time	First Action Pendency (months)	14.4	14.7	16.7
	Total Pendency (months)	24.7	26.5	24.0

TRADEMARK PERFORMANCE SUMMARY

Performance Goal	Performance Measure	FY 2001 Actual	FY 2002 Target	FY 2002 Actual
Enhance the quality of our products and services	Improve quality of trademarks through reducing the error rate	3.1%	5.0%	4.3%
	Increase overall customer satisfaction	70%	72%	65%
Minimize application processing time	First Action Pendency (months)	2.7	3.0	4.3
	Total Pendency (months)	17.8	15.5	19.9

PERFORMANCE DATA VERIFICATION AND VALIDATION

In accordance with GPRA requirements, the USPTO is committed to making certain that performance information reported is reliable, accurate and consistent. To ensure the highest quality data, the USPTO has developed a strategy to validate and verify the quality of the USPTO's performance information. The USPTO has undertaken the following:

- ***Quality Reviews*** – USPTO conducts ongoing reviews on the quality of patent and trademark examination. The focus of the review for patent applications is threefold: (1) identify patentability errors, (2) assess adequacy of the field of search and proper classification, and (3) assess proper examination practice and procedures. For trademark applications, the review includes four areas: (1) substantive statutory criteria for registrability, (2) search for confusingly similar marks, (3) proper examination practice and procedure, and (4) proper application of judicial precedents. The information from these reviews helps our business units identify necessary training with the goal of enhancing overall product quality and improving the consistency of examination. The results of the reviews provide analysis in the form of reports to Patent and Trademark management. These reports serve as a tool for educating examiners and examining attorneys. In addition to reporting specific errors, the analysis provides information on recurring problems and trends.

- ***Accountability*** – Responsibility for providing performance data lies in the Patent and Trademark organizations. The USPTO holds program managers accountable for ensuring procedures are in place regarding the accuracy of their data, and that the performance measurement source is complete and reliable.

The Office of the Inspector General (OIG) also contributes to the USPTO's efforts to assure audit and evaluation coordination and coverage of USPTO goals. The OIG conducted the following types of audits and evaluations:

- ***Program evaluations*** – The OIG reviewed the USPTO's performance measures included in the Department of Commerce's Annual Performance Plan *(Minor Improvements Needed in Reporting Performance Results, FSD-14429/March 2002).* The purpose of the review was to validate the measures and the data collection tools and methods. The results of the audit showed that management controls were in place and operating effectively regarding the collection, validation and reporting of performance measures. In addition, the report stated that the USPTO was committed to developing and producing quality performance measures. Several minor recommendations were reported and have subsequently been implemented by the USPTO.

- ***Financial statement audit*** - During FY 2002 financial statement audit, various tests and reviews of the primary accounting system and internal controls were conducted as required by the Chief Financial Officers' Act. In their FY 2002 internal control report the auditors reported no material deficiencies. The auditors issued an unqualified opinion on USPTO's FY 2002 financial statements.

PATENT PERFORMANCE

Fiscal year 2002 produced many accomplishments for the Patent Organization. In addition to executing the various actions outlined by the Under Secretary in the top-to-bottom review, the Patent Organization made significant progress towards initiating many of the themes described in the *21st Century Strategic Plan*. These efforts will improve patent examination quality and processes, and will also help the USPTO meet the changing needs of its customers in this knowledge-based economy.

Nicholas P. Godici, Commissioner for Patents

Along with developing many of the action items identified in the Strategic Plan, the Patent Organization supported the President's Management Agenda on many fronts, including: competitively outsourcing functions, improving strategic management and human capital as evidenced through increased employee retention, and enhancing e-Government objectives.

With respect to workload issues, the USPTO received 333,688 Utility, Plant, and Reissue (UPR) patent applications for the fiscal year just ended, a 2.3 percent increase over FY 2001 and more than any previous year despite the downturn in the economy. Additionally, the USPTO published 169,729 pending applications 18 months after filing and issued 162,221 patent grants, 8,579 short of projected achievement goals due to delays in mail delivery of patent issue fees as a result of anthrax contamination in the Brentwood Post Office.

In addition to addressing the mounting backlog issues, the Patent Organization made noteworthy attempts to decrease pendency. With an end-of-year examiner staff of 3,538, Patents produced 275,054 first office actions with an average pendency of 16.7 months, and disposed of 260,245 applications, achieving an average pendency of only 24 months – almost two months less than the projected overall pendency goal.

Under Secretary Rogan moderates a roundtable on innovation in the 21st Century during the USPTO's celebration of its bicentennial. Joining Director Rogan at the table were over 30 of America's greatest living inventors and Richard Russell, Associate Director for Technology, White House Office of Science and Technology.

Moreover, the Patent Organization demonstrated significant improvement in the areas of quality. Specifically, the percentage of allowed applications with material or significant defect was reduced by 1.2 percent over FY 2001, bringing the overall quality error rate down to 4.2 percent. This is well below the target goal of reducing the error rate to 5.0 percent. This tremendous achievement is due to a number of quality initiatives that were implemented during FY 2002, such as focused emphasis on quality, enhanced training of patent examiners, and expanded review of patent applications.

In keeping with the President's priorities and new emphasis on homeland security, the Patent Organization made strides during the fiscal year to improve its screening and reviewing processes for patent applications with national security issues. Patents coordinated with the Office of Homeland Security, Department of Defense, Department of Energy, Department of Justice, National Aeronautics and Space Administration, and Department of Health and Human Services with respect to potential interests in expanding the review of patent applications for matters of homeland security. Patents successfully implemented new security screening procedures while ensuring the 30-day mailing of filing receipts was maintained. Also, in response to the Secretary's emphasis on safety and security within the workforce, the Patent Organization improved its emergency preparations by obtaining emergency contact information for employees and ensuring that each building implemented and regularly practiced building evacuation procedures.

The Patent Organization continued its customer outreach efforts by providing educational lectures and presentations regarding recent changes to patent rules. Specifically, presentations were made to major national and regional bar associations, intellectual property organizations, legal secretaries and administrators, and at several legal conferences regarding new case law and practical tips on how to work more efficiently with the USPTO. Additionally, Patents produced lectures and training explaining the American Inventors Protection Act (AIPA) of 1999. Patents also worked with the Office of Legislative and International Affairs and the Office of the General Counsel to submit some needed technical changes to the law, which were ultimately enacted by Congress. Thereafter, Patents continued to develop and revise training materials regarding the changes.

In our quest to implement electronic Government initiatives, the USPTO's Search and Information Resources Administration (SIRA) played an important role in many of the Patent Organization's efforts to improve patent application quality, timeliness, and customer service during FY 2002. Two of SIRA's significant accomplishments include:

- Enhancing the agency's search systems by adding the full text for 2.5 million U.S. patents issued between 1920-1970;

- Developing and delivering automation training courses, customized to the requirements of each of the seven technology centers. These courses focused on teaching examiners how to search more effectively for Non-Patent Literature and were delivered to the entire Patent Examining Corps.

Secretary Evans and Under Secretary Rogan pose with the 38 inductees of the National Inventors Hall of Fame who were special honored guests at the Bicentennial Celebration.

The SIRA automation department also developed and implemented a significant upgrade to USPTO's legacy workflow system. The new application tracking system, called PALM (Patent Application Location and Monitoring) ExPo, provides greater flexibility in workflow tracking and greater ease of use for the technical support staff. Following deployment, SIRA developed and delivered training for every patent examiner, manager, and technical support provider for the new system.

Significant efforts were made to reduce the backlogs in Certificates of Correction including enhancements to the desktop publishing system. We designed systems and procedures in FY 2002 to support an electronic pilot to reduce patent printing errors. This pilot will allow applicants to review proofs of their patents and submit desired corrections or changes prior to issuance. Another indication that the USPTO is moving closer to an electronic application processing pipeline and a full e-Government environment, the Official Gazette is no longer published in paper and is only produced electronically.

To decrease the backlog and pendency, the USPTO hired 769 patent examiners. Over 60 percent of the new hires were placed in the electrical technology centers, where our biggest challenges exist. These highly skilled individuals will make significant impacts in reducing the backlog.

The integration of the Business Methods technology with the mechanical arts was also a significant achievement for the Patent Organization. During the year, the Business Methods unit responded to suggestions and recommendations from customers and IP groups and associations, and created a variety of prior art collections focused specifically on areas of business method application filings. By realigning Business Methods with a mechanical art group, resources were applied to create and deliver training for the examiners in Business Methods legal developments, and it allowed for the pairing of more senior primary examiners to assist with the instruction of junior examiners.

Secretary Evans greets new patent examiners during a visit to the USPTO.

The Patent Organization implemented the second phase of the Millennium Agreement in FY 2002. The Millennium Agreement is an agreement between the USPTO management and the Patent Office Professional Association, which identifies a series of steps the Patent Organization will make to move toward an electronic Government and further address a number of long-standing issues that will help the Patent Organization reach its goals. During the second phase, the Patent Organization continued its efforts to remove the examiner paper search files, relying instead on the automated database, and deployed upgraded equipment (flat panel monitors and high speed local printers) to hundreds of patent examiners.

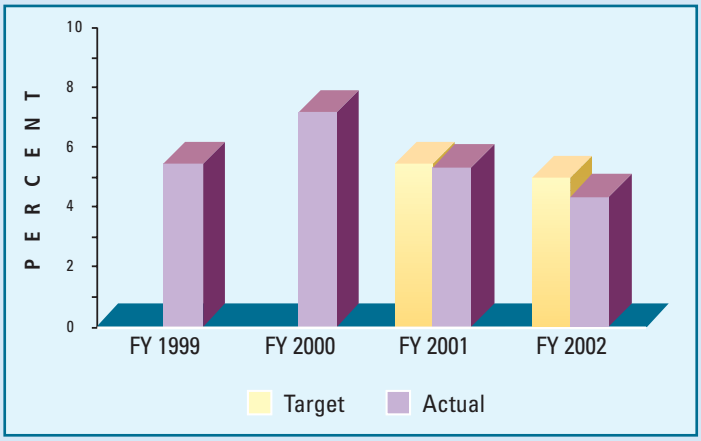
Specific performance results related to the Patent Organization goals and measures are as follows:

Goal: ***Enhance the quality of our products and services***

Customers are concerned with the quality of the products and services they receive in exchange for the fees they pay. The Patent Organization's efforts throughout FY 2002 have provided significant quality and organizational process business benefits. The Patent Organization continues to focus its resources and planning to address the changing needs of its customers, while serving as a catalyst for the U.S. economy.

Measure: ***Improve the quality of patents by reducing the error rate***

QUALITY OF PATENTS



DATA VALIDATION AND VERIFICATION

Data source:	Office of Patent Quality Review Report.
Frequency:	Daily input, monthly reporting.
Data storage:	Automated systems, reports.
Verification:	Manual reports and analysis.
Data Limitations:	None.

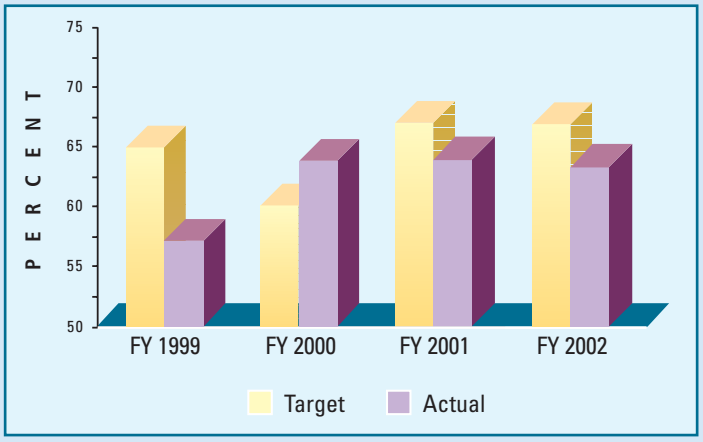
	FY 1999	FY 2000	FY 2001	FY 2002
Target	-	-	5.5%	5.0%
Actual	5.5%	6.6%	5.4%	4.2%

Discussion: *Target met. An error is defined as at least one claim within the randomly selected allowed application under quality review that would be held invalid in a court of law, if the application were to issue as a patent without the required correction. Some examples of errors include the issuance of a claim having anticipatory prior art under 35 USC 102, or relevant prior art under 35 USC 103 that would render the allowed claim obvious. Other errors include lack of compliance of the claim to the other statutory requirements (e.g., 35 USC 101, 35 USC 112) and judicially created doctrines. The error rate is the ratio of patents issued with errors to the total number of patents issued.*

The Patent Organization is making dynamic changes to its quality processes. As a result, quality reviews will be performed throughout the entire examination process. This expanded review process, coupled with extensive implementation of newly designed examiner training should result in a significant improvement in quality.

Measure: ***Improve overall customer satisfaction.***

INCREASING CUSTOMER SATISFACTION



DATA VALIDATION AND VERIFICATION

Data source:	Customer surveys.
Frequency:	Surveys are conducted and results are reported annually.
Data storage:	Paper files and contractor electronic files.
Verification:	Independent contractor develops data instrument, conducts survey and compiles results.
Data Limitations:	None.

	FY 1999	FY 2000	FY 2001	FY 2002
Target	65%	60%	67%	67%
Actual	57%	64%	64%	63%

Discussion: *Target not met. The Patent Organization achieved 63 percent overall Customer Satisfaction, compared with the goal of 67 percent and saw improvements in several of the key drivers. Most notably were the accuracy of filing receipts and in the prompt direction of customer inquiries. Satisfaction with the thoroughness of prior art searches was the only area in which the Patent Organization demonstrated a negative turn. The Office anticipates this downward slope will soon change as a result of the many quality initiatives being implemented by the Patent Organization.*

The USPTO has been surveying customers of the patent process since FY 1995. Overall satisfaction remained virtually the same until FY 1998 with significant improvement in FY 1999 and FY 2000. Survey contractors labeled this five percent increase "statistically significant." They cautioned that repeated "significant" increases in overall satisfaction are highly unusual.

During FY 2002, customer service centers resolved over 50,000 total inquiries. The centers also achieved an average response time of 39.6 days for total inquiries. There were 42,059 status requests received, of which 98.5 percent were resolved. Moreover, to alleviate the need for faster processing times, the Patent Organization posted notices on the USPTO web site that encouraged and provided direction on how applicants could provide official documents by facsimile. In addition, one technology center designed and supported a Time-to-First Action software package that was deployed throughout the Patent Organization in May 2002. The latest survey provided to USPTO customers revealed the following:

Key Drivers	FY 2001	FY 2002	Difference in % Satisfaction
Directing customer inquiries promptly	70%	74%	+4
Returning calls within one business day	64%	66%	+2
Providing clear communications	62%	63%	+1
Widely disseminating information	63%	63%	0
Mailing Accurate Filing Notices	55%	61%	+6
Conducting thorough searches	63%	60%	-3

In an effort to improve overall customer satisfaction, several more customer service representatives were hired and increased customer service goals were established. USPTO has been surveying customers of the patent process since FY 1995. Overall satisfaction remained virtually the same until FY 1998, with a statistically significant five percent improvement in FY 1999 and FY 2000. Expert consultants have informed the Patent Organization that repeated "significant" increases in overall satisfaction are highly unusual. In recent surveys, the Patent Organization focused on improving key drivers of customer satisfaction, such as providing clear office communications from examiners, directing customer inquiries in a prompt and efficient manner, returning customer phone calls within one business day, and broadly disseminating information. Satisfaction with the thoroughness of prior art searches was the only area in which the Patent Organization demonstrated a negative turn. The Patent Organization anticipates this downward slope will soon change as a result of the many quality initiatives being implemented by the Patent Organization.

Goal: *Minimize patent application processing time*

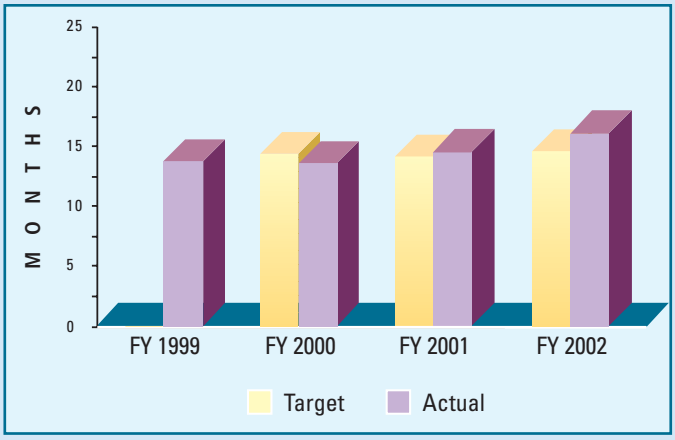
The term of patent protection is currently defined as beginning on the date the patent is granted and ending 20 years from the earliest filing date of the application. Since the amount of time the Office uses to process an application takes away from the patent term enjoyed by the inventor if the application is granted, it is incumbent upon the Patent Organization to minimize the application processing time. A shortened patent term and lengthened pendency complicate business decisions and negatively impact a patent owner's ability to collect royalties, raise capital, and bring new products to market particularly in computer-related fields where the product cycle is relatively short.

The two primary measures of Patent Organization processing time are: (1) first action pendency, which measures the average time in months from filing date until an examiner's initial determination of the patentability of an invention; and (2) total pendency, which measures the average time in months from filing until the Patent Organization grants the patent or the application is abandoned by the applicant.

Patrick Nolan, Primary Patent Examiner Tech Center 1600 briefs Secretary Evans on electronic search tools

Measure: ***Reduce average first action pendency.***

PATENT FIRST ACTION PENDENCY



DATA VALIDATION AND VERIFICATION

Data source: Patent Application Location and Monitoring (PALM) system.

Frequency: Daily input, monthly reporting.

Data storage: PALM, automated systems, reports.

Verification: Accuracy of supporting data is controlled through internal program edits in the PALM system. Final test for reasonableness is performed internally by patent examiners and supervisory and program management.

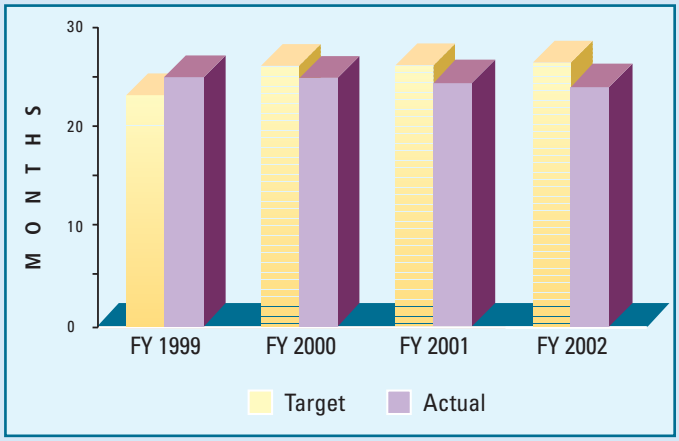
Data Limitations: None.

	FY 1999	FY 2000	FY 2001	FY 2002
Target	-	14.2	13.9	14.7
Actual	13.8	13.6	14.4	16.7

Discussion: *Target not met. Delay in the timely hiring of new patent examiners resulted in not meeting our first action pendency target by two months. The initiatives identified in the USPTO 21st Century Strategic Plan will reduce patent pendency, substantially cut the size of the work backlog, and recover investments in people, processes and technology.*

Measure: ***Reduce average first action pendency.***

TOTAL PATENT PENDENCY



DATA VALIDATION AND VERIFICATION

Data source: PALM system.

Frequency: Daily input, monthly reporting.

Data storage: PALM, automated systems, reports.

Verification: Accuracy of supporting data is controlled through internal program edits in the PALM system. Final test for reasonableness is performed internally by patent examiners and supervisory and program management.

Data Limitations: None.

	FY 1999	FY 2000	FY 2001	FY 2002
Target	23.3	26.2	26.2	26.5
Actual	25.0	25.0	24.7	24.0

Discussion: *Target met. Total pendency is the estimated time in months from filing to issue or abandonment of the application.*

Secretary Evans delivers remarks and a toast at the Bicentennial Reception and Dinner held at the Library of Congress.

Patents received 333,688 Utility, Plant and Reissue applications during the fiscal year, a growth rate two percent above the previous year's filings. In order to address mounting backlogs and decrease pendency, 769 patent examiners were hired. Patents ended the year with a staff of 3,538 patent examiners and an attrition rate of seven percent, down from 8.2 percent in FY 2001. The examiner corps issued 275,054 first office actions, for a pendency of 16.7 months, and disposed of 260,245 applications, achieving 24.0 months' total pendency, significantly below our target for the year.

Filings under the Patent Cooperation Treaty (PCT) continue to be steady. During FY 2002, the USPTO received approximately 42,889 international applications; 27,828 demands for International Preliminary Examination; and 29,846 National Stage applications filed under the PCT.

PATENT COMMISSIONER'S PERFORMANCE FOR FY 2002

The American Inventors Protection Act (AIPA), Title VI, Subtitle G, the Patent and Trademark Office Efficiency Act, established the USPTO as an agency of the United States, within the Department of Commerce, on March 29, 2000. The legislation provides for appointment of a Commissioner for Patents as the Chief Operating Officer for Patents, and a Commissioner for Trademarks as the Chief Operating Officer for Trademarks. It also requires that an annual performance agreement be established between the Commissioners and the Secretary of Commerce. The agreement outlines measurable organizational goals and objectives for the organization. The Commissioners may be awarded a bonus, based upon an evaluation of their performance as defined in the agreement, of up to 50 percent of their base salary.

The Patent Organization goals formed the foundation for the annual performance agreement between the Commissioner for Patents and the Secretary of Commerce, as required by the AIPA. The performance agreement outlined measurable organizational goals and objectives for the Patent Organization based on the above goals and performance measures. Upon an evaluation by the Secretary of Commerce, and consistent with the AIPA, the Commissioner for Patents received a performance bonus of 25 percent of his annual rate of basic pay for his contribution toward the successful achievement of these goals and objectives.

THE PATENT ORGANIZATION – WHAT'S AHEAD

The USPTO is facing critical challenges. The need for change stems from various sources:
(1) continued increase in patent application filings, especially in complex technologies;
(2) demands from customers for higher quality products and services in a timely manner; and
(3) pressures from Congress, the owners of intellectual property, the patent bar, and the public to address their concerns in an aggressive and time-sensitive manner.

In response to these needs, the Patent Organization focused on transformation throughout FY 2002. As a result of the top-to-bottom review conducted in the first half of the fiscal year and the creation of the *21st Century Strategic Plan*, the Patent Organization was given the challenge to improve processes in order to achieve higher quality issued patents, implement an e-Government system, reduce patent application pendency, and create greater customer satisfaction. The Patent Organization embraced these challenges. In support of customer demands, the changes resulting from a market-driven economy, and the goals defined in the Strategic Plan, the Patent Organization established several teams led by senior Patent managers to direct and manage the achievement of each of the Patent initiatives outlined in the Strategic Plan.

Left to right Stephen G. Kunin, Deputy Commissioner for Patent Policy, Brad Huther, Senior Advisor and Lynn Beresford, Deputy Commissioner for Trademark Policy answer employees questions regarding the 21st Century Strategic Plan.

The directives set forth by the Under Secretary placed patent quality as the highest priority for the USPTO. As such, the Patent Organization is now integrating several quality enhancement programs into the overall quality assurance program located in each technology center. In addition, the Patent Organization is expanding application work product reviews and is strengthening the connection between the collection of quality review data and the subsequent training needed for improved application examination. The unique quality needs of each technology center will be met through the use of Technology Quality Leads who collaborate with Quality Assurance Supervisors and the Office of Patent Training for necessary training and process changes. These projects bring quality and training to the front lines. In particular, the Patent Organization's quality initiatives are based on the following elements:

- Patent professionals, support staff, and supervisors will be held accountable for the requisite skills needed to carry out their responsibilities during the patent examination process.
- The Patent Organization will address employee skills needed for implementing e-Government processes.
- Pre-employment testing will be utilized to screen all potential patent examiners, including the assessment of written and oral communication skills.
- Primary examiners will be responsible for staying current in patent law, practices, and procedures. This will be monitored through the use of re-certification testing and training courses.
- Legal competency and negotiation abilities will be certified before patent examiners are promoted to GS-13 level.
- More rigorous standards will be put into effect for the selection and training of supervisory patent examiners and quality assurance specialists. New skill sets will be one of the most effective methods for training patent examiners and increasing the thoroughness of examiner work product reviews.

As all of these efforts are implemented over the next few years, the Patent Organization expects these quality initiatives will result in significant quality improvements to patent examination. The Patent Organization and its customers can expect:

- Improved patent application examination
- Increased examiner legal and technical knowledge
- Reduced rework from USPTO Office actions
- Higher standards for examiner promotions
- Confidence in examiner ability
- More thorough Patent Organization communications
- Better review of U.S., foreign, and non-published literature prior art
- Increased training for Patent Organization employees on key areas

Initiatives started in FY 2002 that will continue in subsequent years to implement the above quality improvements include the following:

Knowledge, Skills and Abilities –

The establishment and testing of formal Knowledge, Skills and Abilities (KSAs) for those involved in the patent examining process ensures that patent examiners, supervisory patent examiners, and quality assurance specialists have the requisite tools to perform the patent examination functions, training, and quality reviews at the highest possible level. It also accommodates proper hiring, training, retention, and promotions for all patent examiners, supervisory patent examiners, and quality assurance specialists. At of the end of FY 2002, the basic KSA concepts were developed and the validation process begun. Additional information regarding patent examiner training can be found in the "Other Accompanying Information" section at the end of this report.

Pre-employment Testing for Patent Examiners –

Pre-employment testing permits the Office to better evaluate applicants and their abilities, such as oral and written communication skills, to perform the functions of the job. An interim process was established during FY 2002 and is being utilized until the final KSAs are implemented.

Re-certification of KSA for Primary Examiners and Certification of Junior Examiners –

The recertification of primary examiners and certification of junior examiners was initiated to ensure examiners maintain the requisite KSAs in current patent law, practice, and procedure. The process includes continuing legal education classes and extended work reviews. By the end of FY 2002, the Patent Organization developed a strategy to implement the increased work reviews and began the development of course criteria and schedules necessary for recertification.

Improved Selection and Training of Management –

The management team is responsible for training patent examiners and ensuring examiners have a full understanding of the examination process. In addition, managers must have the skills necessary to guide their employees. For these reasons, the Patent Organization developed the criteria necessary to improve its management staff selection process and is building the training courses that will provide managers with the fundamental skills necessary to be effective.

Expansion of Patent Application Work Product Reviews –

By the end of the fiscal year, the Patent Organization began implementing an expanded quality assurance program in the technology centers. The program provides each technology center with a central quality assurance program that reviews quality throughout the examination process. The Patent Organization will be creating new positions, which will guide the overall training in FY 2003.

Enhanced Reviewable Record –

Improving the patent application file wrapper record generated during the prosecution and providing better explanations for Patent Organization actions will substantively contribute to the overall quality of a patent. By the end of the FY 2002, the Patent Organization established new guidelines and drafted policy changes for the Manual of Patent Examiner Procedures for improving file wrapper contents.

E-Government –

E-Government is also a high priority for the Patent Organization. At the May 2002 Technical Trilateral meeting in The Hague, an agreement was reached between the European Patent Office (EPO) and the USPTO to foster collaborative development in the areas of e-filing and e-processing of patent applications. In accordance with the agreement, the Patent Organization implemented an electronic application processing prototype based on the EPO's Phoenix image-based system. The prototype includes 40-50 employees from three art units within two technology centers. The prototype will provide an opportunity to study the integration of EPO's capabilities into the Patent Organization's current automation systems. Additionally, the use of EPO's system will allow the USPTO to accelerate its transition to a completely electronic environment, and will leverage their experience with processing image-based applications into the redesign of USPTO application processing.

The ultimate goal is to create an end-to-end patent application pipeline that will provide e-processing of applications from authoring and filing to publication. Together with the Tools for Electronic Application Management (TEAM) project, which will provide a document management and workflow system to electronically process patent applications, the system will integrate and capitalize on features from a variety of information technology systems currently in use at the USPTO. This change will reduce the dependency on increasing electronic filing rates in the short-term, since all applications (even those submitted in paper format) will be converted to electronic format.

All forecasts indicate that the future will be dynamic for Patents. With requisite funding and staffing resources, it is anticipated that many of the projects initiated in FY 2002 will be operational in FY 2003. Additionally, using the revised patent processes based on the concepts outlined in the Strategic Plan, it is predicted that the Patent Organization will see dramatic results over the next five years, including:

- Enhanced quality for patent examining operations
- 50 percent reduction in first action response time
- Continuing to strive for pendency reduction toward the ultimate target of 18 months
- Outsourcing of classification and search functions
- Full implementation of an electronic image file wrapper based on the EPO Phoenix system

TRADEMARK PERFORMANCE

The word that best describes FY 2002 for the Trademark Organization is *unprecedented*. The past year brought any number of new challenges that required significant rethinking for managing the continued decline in trademark filings. At the start of the year, the Trademark Organization was faced with the very real possibility that the examination process would be seriously disrupted if drastic actions were not taken to redirect available resources to focus on other work. The most significant operational challenge addressed in the past year was the decision to conduct a reduction-in-force to balance our examiner staff with workloads. The decision was made after carefully considering a number of options, and was consistent with the USPTO's goal of running an efficient and effective Trademark operation. The nature of the work, registering trademarks, makes the Trademark Organization susceptible to the same economic forces that have led many businesses to reduce the size of their workforce over the past two years.

Anne H. Chasser, Commissioner for Trademarks

Given the second year of declining new filings, Trademark's strategy was to focus attention on three areas within the examination process with a goal to reduce the pending inventory of paper files prior to the implementation of electronic file management in FY 2004 and the relocation of Trademark Operations to the Carlyle campus in the near future.

The results were dramatic. A record number of applications were registered and disposed of, and pending inventories were substantially reduced. Registrations increased by more than 30 percent to 133,225 including 164,457 classes. Total Office disposals were 228,191 including 284,559 classes. The inventory of total applications under examination was reduced by 30 percent from 332,900 files with more than 458,300 classes at the start of the fiscal year to 233,100 files including 318,300 classes. The decrease is due in part to lower filings but more significantly to the concerted effort to complete work on applications already under examination or still in process pending publication and registration. As a result of this focus, the inventory of files under examination was reduced by 48 percent due to a combination of examiner action and applications that were abandoned. Applications that had previously been approved by the examiner were completed, reducing the inventory of applications in the publication cycle by 36 percent.

Highlights of the Trademark Organization's performance during FY 2002 are shown below:

Trademark e-Government –

The Trademark Organization is well positioned to achieve the objectives of the USPTO's *21st Century Strategic Plan*, which relies on electronic communications to offer market-based services and improve the availability of trademark information to more effectively serve an increasingly larger, global client-base. Internet access has provided advantages that were not possible in a paper environment. Customers may now access information at their convenience that previously may not have been known or available to them. They can also file applications on-line and correspond electronically. Electronic filing and access increases the opportunity for filing for Federal registration, which affords protection to business owners and consumers by providing notice of marks in use. Electronic filing and information systems serve customers in two very important ways, by improving the time and accessibility of information and by improving the quality of the initial application as well as the quality of the data that is captured and shared in the publication and registration of trademarks.

Trademark's goal for 2002 was to expand the use of the Internet to receive 50 percent of all trademark applications electronically, increasing to 80 percent by 2003. The goal is to perform nearly all communications with customers electronically by 2004.

In FY 2002, the Trademark Organization received 38 percent of the initial applications for registration electronically. In the last quarter of the fiscal year, just over 50 percent were filed electronically. Two new electronic forms were added in midyear and showed significant use. More than 47,300 requests were received electronically to change the correspondence address of an application. Nearly 5,600 responses to office actions or preliminary amendments were filed. The addition of these two forms significantly improves the time in which the Trademark Organization can respond to requests as well as offering a more convenient way to transact business for all applicants.

Under Secretary Rogan delivers keynote address at the annual International Trademark Association (INTA) meeting, which was held in Washington for the first time last year.

Electronic Access –

Trademark's customers have the ability to access the same data used internally in the processing and examination of trademarks and conduct nearly all their trademark-related business electronically on the USPTO web site. Customers may conduct an electronic search to determine the status of pending and registered trademarks, conduct a preliminary search prior to filing an application, access general information, examination manuals, treaties, laws and regulations, obtain weekly information on marks published (registered and renewed), and file applications.

Trademark Electronic Search System (TESS) –

TESS supports the USPTO's approach to e-Government by providing greater access and information resources to those who need it. TESS allows anyone from any location to search and retrieve, for free via an Internet browser, the more than 3.3 million records of pending, registered, abandoned, cancelled or expired trademark applications or registrations. The USPTO has made available to the public the entire database and search system used by the USPTO's trademark examining attorneys for making decisions regarding the registrability of a mark. Access to this database is leading to increased electronic communications with trademark customers and is a critical component for the success for achieving the goal of e-Government. The public initiates more than one million queries per month through TESS.

Trademark Application Registration Retrieval (TARR) –

TARR is a web-based system providing information on pending and registered trademarks to the public at no cost. TARR represents the USPTO's continuing commitment to maximize implementation of e-Government initiatives. USPTO customers can access the Internet or call the status line and help lines to monitor the current status of their filings. The public initiates more than 1.3 million queries a month through TARR.

The Trademark Trial and Appeal Board (TTAB) Information System Index supplements status information available from TARR by including the status of search proceedings for the TTAB.

Trademark Electronic Application System (TEAS) –

The Trademark Organization continued to build on improving the content and offerings available through its web site presence that has driven much of its e-Government success. Since its debut four years ago, TEAS, has generated an ever-increasing level of filings. From its first year of operation, when eight percent of initial applications were filed electronically, the percentage of applications filed for registration has increased to 38 percent. Making more forms as well as trademark-related information available via the Internet improves the ability of the public to gain access to Government information.

Trademark customers flock to USPTO booth for TEAS demonstration during annual INTA meeting held last year in Washington DC.

The ability to accept applications electronically is critical to meeting the USPTO goal for conducting business electronically by FY 2004, as well as providing access to those who otherwise would not have filed for trademark registration. Over the past year, the Trademark Organization continued to take steps to make TEAS the cornerstone of the overall transformation of Trademark operations into an effective e-Government operation focusing on specific strategies to increase the number of applications filed electronically, and the number of applicants adopting electronic filing as their preferred method of conducting business with the USPTO.

Initiatives to Promote e-Government –

Several fora to promote electronic filing and communication were jointly sponsored by the USPTO and law firms, associations, and universities in the greater Washington metropolitan area and major cities across the U.S. These fora provided a unique collaboration between the USPTO and senior law firm and corporate trademark practitioners to share information and ideas with the goal of ensuring that business needs are met as the USPTO continues its transition to an e-commerce environment.

Electronic Publication and Distribution –

The production process for the Trademark Official Gazette, the weekly publication of current information covering several thousand marks and other office actions, is created electronically and sent to the Government Printing Office for printing and distribution. Text and images are extracted from electronic records, making the entire layout of the Gazette and the printing of the registration certificate, fully automatic. The weekly Trademark Official Gazette, registration certificates and updated registration certificates for the five most recent weekly issues are available electronically from the USPTO web site. Previously, the Official Gazette was available only in paper form from the Government Printing Office or through the Patent and Trademark Depository Libraries. Copies of registration certificates were only available in paper at the USPTO or for a fee. Now, the entire publication and copies of registration certificates are also available as a PDF file that can be downloaded via the Internet. The products are available more quickly to the consumer, and the electronic versions are free.

Trademark Manual of Examining Procedure (TMEP) –

The 2002 edition of the TMEP was distributed electronically in a searchable, downloadable format. The TMEP, along with other trademark information resources, has been provided in both an electronic and a paper format for several years. Electronic distribution through the USPTO web site and FirstGov is recognition of the flexibility and convenience Internet access provides in reaching an expanded network of businesses and the public.

Trademark Information Capture and Retrieval System (TICRS) –

TICRS is the first step toward creating a fully electronic file, and eventually, an electronic file management system. All incoming applications filed since FY 1999, whether filed electronically or on paper, are captured and stored electronically through TICRS. Electronic images of applications have replaced the need for generating paper copies or for microfilming new applications. In the past year, TICRS was made available to all Trademark employees at their desktop computers, and to the public through computers in our public search library. Examiners are now able to conduct their initial examination of the application from the TICRS image, the first step in transitioning to a completely electronic process.

Filings –

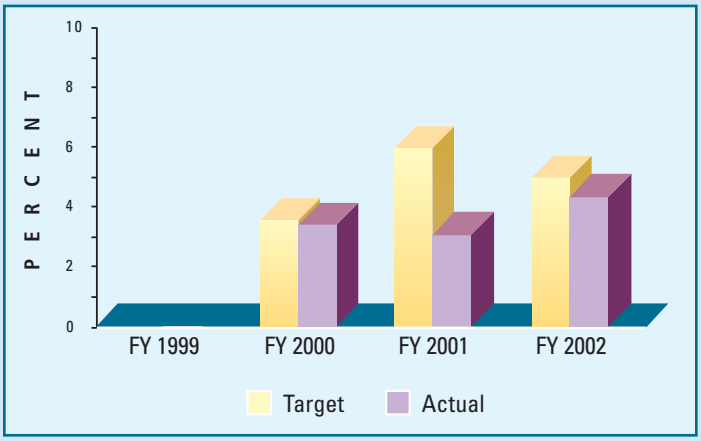
The USPTO received 207,287 trademark applications, including 258,873 classes for registration in FY 2002. Filings in FY 2002 were nearly 13 percent less than filings in FY 2001, which followed a decline of 21 percent from FY 2000 to FY 2001. The drop in new application filings marked the second year in a row in which fewer applications were received than in the previous year. The level of filings over the past two years represents a significant turnaround following two consecutive years with increases of 27 percent preceded by nearly a decade of annual increases of 10 to 14 percent.

Specific performance results related to the Trademark Organization goals and measures are as follows:

Goal: Enhance the quality of our products and services

Measure: ***Improve the quality of trademarks by reducing the error rate***

QUALITY OF TRADEMARKS



DATA VALIDATION AND VERIFICATION

Data source:	Office of Trademark Quality Review Report.
Frequency:	Daily input, monthly reporting.
Data storage:	Automated systems, reports.
Verification:	Manual reports and analysis.
Data Limitations:	None.

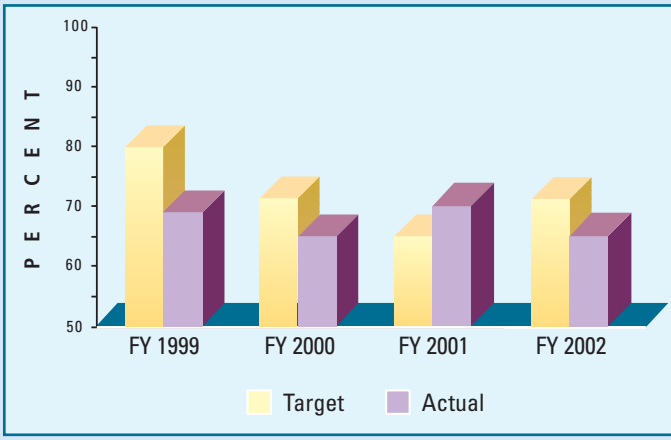
	FY 1999	FY 2000	FY 2001	FY 2002
Target	-	3.6%	6.0%	5.0%
Actual	-	3.4%	3.1%	4.3%

Discussion: *Target met. Examination quality was 95.7 percent based on standards for assessing the "clear error" rate for determining the type of errors that could affect the registrability of a mark.*

The review of pending, registered, and abandoned files by the Office of Trademark Quality Review determined the "clear error" rate (average error rate affecting registrability) to be 4.3 percent for the year. Errors related to marks that would be considered "confusingly similar" under section 2(d) of the statute were determined in 4.4 percent of applications for a quality rating of 95.6 percent. The quality rate was 97.1 percent for findings on procedural errors. During the past year, the Trademark Organization worked in cooperation with the Office of Quality Management and Training and the Office of Trademark Quality Review to benchmark a more consistent set of quality measures that would better reflect the current quality of examination. The Trademark Organization has initiated plans for the creation of a new set of measures for first action quality and current quality and to create the infrastructure needed to support incorporating the results of the reviews into examination practice.

Measure: ***Improve overall customer satisfaction***

TRADEMARK CUSTOMER SATISFACTION



DATA VALIDATION AND VERIFICATION

Data source:	Customer surveys.
Frequency:	Surveys are conducted and results are reported annually.
Data storage:	Paper files and contractor electronic files.
Verification:	Independent contractor develops data instrument, conducts survey and compiles results. Final test for reasonableness is performed internally.
Data Limitations:	None.

	FY 1999	FY 2000	FY 2001	FY 2002
Target	80%	72%	65%	72%
Actual	69%	65%	70%	65%

Discussion: *Target not met. Trademarks derive quality targets from internal objective data and customer satisfaction data obtained through annual surveys. The objective is to measure performance with respect to quality of the services rendered and the quality of trademarks registered. The USPTO will be developing a new quality index that will incorporate a number of metrics, including those identified below, to measure achievement toward the capability goals. That index, when developed and implemented, will be base lined and used in the future as a more balanced tool for measuring performance with respect to quality.*

Results of the annual customer satisfaction survey indicate that considering all customer experiences with the Trademark process, 65 percent of our customers report satisfaction with our service, a decline of five percentage points from FY 2001 results. Overall, the Trademark Organization received high marks for its quality improvement initiatives, shorter cycle times, outstanding customer service and satisfaction with electronic filing.

The Trademark Assistance Center was restructured in the past year in an effort to address handling customer complaints and improving problem resolution, areas for improvement that were identified from customer survey results. Results have been extremely favorable. Service level, a measure indicating the percent of calls responded to within 20 seconds, improved significantly – from 55 percent at the beginning of the year to 84 percent at years' end. Improvements that focus on identifying the source of customer complaints with the objective of preventing future occurrences were implemented during the year.

Telework –

The Trademark Organization is a leader in the Federal government in telecommuting. The Trademark telecommuting program was initially designed so that examining attorneys could perform the same work and access the same information technology systems from home as they do in the office. In FY 2002, the total number of employees who worked from home was further expanded to include other employees who could perform some of their work without access to Trademark information systems. As of September 30, 2002, of the 291 trademark employees who are considered eligible, 122 or 42 percent are currently working at least one day a week from home.

Commissioner Chasser address INTA regarding current trademark issues.

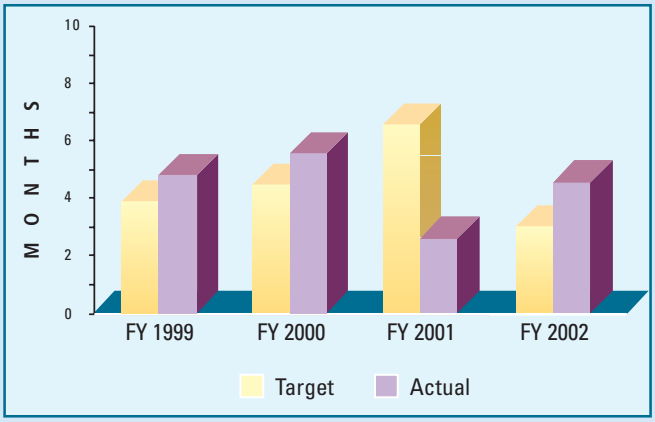
In addition, Trademarks conducted a pilot program to test the concept of "hoteling" for a portion of its work-at-home workforce. This pilot allowed examining attorneys to work from home for a majority of the workweek and tested the use of an automated reservation system to assign office space on an as-needed basis. The objective of this program is to greatly reduce office space requirements and their associated costs. Employees in this pilot give up a permanent office at the USPTO and instead share an office with other work-at-home attorneys when at the office. Evaluation of the pilot shows that it is has been successful in raising employee productivity and job satisfaction. In FY 2003, Trademarks plans to utilize the hoteling concept for all of its work-at-home examining attorneys in order to consolidate its workforce and reduce office space requirements.

In October of FY 2002, the USPTO received the 2001 Government Agency Excellence in Telework award given by the International Telework Association and Council (ITAC). ITAC honored the USPTO for the Trademark Work-at-Home Program. ITAC presents awards annually to leading businesses, legislators, government agencies and telework trailblazers to promote and foster advances in the field, to provide international recognition for leadership and innovation and to motivate and inspire corporations, organizations and individuals to excel in their telework practices.

Goal: *Minimize trademarks application processing time*

Measure: *Reduce average first action pendency.*

TRADEMARK FIRST ACTION PENDENCY



DATA VALIDATION AND VERIFICATION

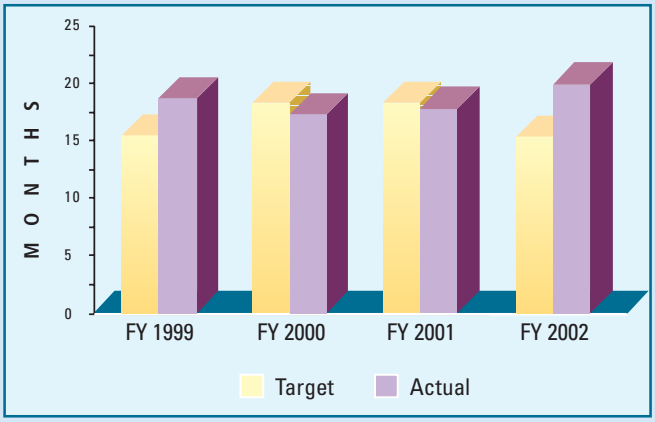
Data source:	Trademark Reporting and Monitoring (TRAM) system.
Frequency:	Daily input, monthly reporting.
Data storage:	TRAM, automated systems, reports.
Verification:	Accuracy of supporting data is controlled through internal program edits in the TRAM system. Final test for reasonableness is performed internally by examining trademark attorneys and supervisory and program management.
Data Limitations:	None.

	FY 1999	FY 2000	FY 2001	FY 2002
Target	3.9	4.5	6.6	3.0
Actual	4.6	5.7	2.7	4.3

Discussion: *Target not met. The time from filing to mailing an examiner's first office action increased by the end of the fiscal year to 4.3 months from 2.7 months at the end of the prior fiscal year. The increase was due to shifting priorities for examination on completing applications already under examination.*

Measure: *Reduce average total pendency*

TOTAL TRADEMARK PENDENCY



DATA VALIDATION AND VERIFICATION

Data source:	TRAM system.
Frequency:	Daily input, monthly reporting.
Data storage:	TRAM, automated systems, reports.
Verification:	Accuracy of supporting data is controlled through internal program edits in the TRAM system. Final test for reasonableness is performed internally by examining trademark attorneys and supervisory and program management.
Data Limitations:	None.

	FY 1999	FY 2000	FY 2001	FY 2002
Target	15.5	18.0	18.0	15.5
Actual	18.9	17.3	17.8	19.9

Discussion: *Target not met. High levels of applications under examination from prior years kept overall pendency to registration, notice of allowance or abandonment above the 13-month goal at 19.9 months. As the total number of applications under examination continues to be reduced and first actions decline once again to the three-month goal, overall pendency to registration will decrease.*

TRADEMARK COMMISSIONER'S PERFORMANCE FOR FY 2002

The American Inventors Protection Act, Title VI, Subtitle G, the Patent and Trademark Office Efficiency Act, established the USPTO as an agency of the United States, within the Department of Commerce, on March 29, 2000. The legislation provides for appointment of a Commissioner for Patents as the Chief Operating Officer for Patents, and a Commissioner for Trademarks as the Chief Operating Officer for Trademarks. It also requires that an annual performance agreement be established between the Commissioners and the Secretary of Commerce. The agreement outlines measurable organizational goals and objectives for the organization. The Commissioners may be awarded a bonus, based upon an evaluation of their performance as defined in the agreement, of up to 50 percent of their base salary.

The Trademark Business goals formed the foundation for the annual performance agreement between the Commissioner for Trademarks and the Secretary of Commerce, as required by the AIPA. The performance agreement outlined measurable organizational goals and objectives for the Trademark Business based on the above goals and performance measures. Upon an evaluation by the Secretary of Commerce, and consistent with the AIPA, the Commissioner for Trademarks received a performance bonus of 17 percent of her annual rate of basic pay for her contribution toward the successful achievement of these goals and objectives.

THE TRADEMARK ORGANIZATION – WHAT'S AHEAD

Trademarks will move aggressively over the next two years to implement the objectives of the *21st Century Strategic Plan* by completing the redesign of its operations to implement e-Government as the primary means of doing business with applicants and registrants, and as the sole means for processing work inside the examining operation.

The Trademark Organization is scheduled to implement an electronic file management system and begin e-Government operations on November 2, 2003, concurrent with the implementation of the Madrid Protocol in the U.S. This will complete a ten-year business process reengineering plan to move Trademarks from primarily doing business with paper to doing business in an electronic environment. With the implementation of electronic processing in FY 2004, Trademarks is committed to reducing pendency to first action to two months with disposal pendency reduced to 12 months by FY 2006. Implementing an electronic file management system, in addition to our currently available electronic filing and information systems, will permit:

- Reduction in cycle times by consolidating separate processes and eliminating the potential for "lost" or missing papers which create additional delays and poor service, and
- Capture and creation of electronic documents that can be tracked and forwarded to appropriate employees for further action.

Commissioner Chasser is joined by Jon Kent, INTA Government Relations (left) and Alan Drewsen, INTA Executive Director (right) at the opening of the exhibit, "Trademarks the Fingerprints of Commerce" at the USPTO museum. The exhibit, which ran through the summer, opened in conjunction with the INTA Conference.

As the reliance on paper disappears from internal processes, the cost for handling applications and related materials, along with the reliance on increasing numbers of employees or contractors to handle increases in filings will be substantially reduced. Applicants will see improved quality as Trademarks moves to using data submitted or captured electronically to support examination and to publish documents and registrations. Electronic file management presents an opportunity for the USPTO to offer options for filing that allow applicants to select the method of filing that best suits their business needs.

In an effort to improve the quality of trademark examination, the USPTO expects to implement the following programs by 2004:

- ***In-Process Review*** – A statistically meaningful sample of all first actions and final actions will be selected on a continuous basis, and reviewed for quality and correctness. Information regarding examination errors will be used for training and other purposes to improve the quality of examination decisions.

- ***Second Set of Eyes Review*** – Any proposed substantive refusal of an application filed under a "fast track" examination option (one of the "multiple examination options" for Trademark applicants) will not be issued unless approved by a senior level attorney.

- ***Certification of Knowledge, Skills and Abilities*** – The USPTO will implement a program to certify and re-certify that examiners and managers possess the KSAs needed to perform their jobs. Re-certification will occur periodically throughout the employee's career at the USPTO. Additional information regarding trademark examining attorney training can be found in the "Other Accompanying Information" section at the end of this report.

Madrid Protocol – Legislation implementing the Madrid Protocol was enacted on November 2, 2002. The Madrid Protocol is a trademark filing treaty that currently includes 56 member countries. Under the terms of the treaty, U.S. trademark owners will be able to file a single application with the USPTO in English, pay the appropriate fees in U.S. dollars, and potentially have their mark protected in any or all of the countries that are Protocol members. Non-U.S. trademark owners of member countries may elect to seek an extension of protection of their international registration in the U.S. by filing through the International Bureau.

The Academy of Motion Pictures Arts and Sciences loaned the Oscar won by Bette Davis for "Jezebel" to the USPTO for the trademark exhibit. The Oscar statuette is a registered trademark.

The USPTO intends to implement the terms of the Protocol one year from the enacted date by incorporating filing and processing requirements into the design of its electronic systems. Based on the experience of other countries that have joined the Protocol, the USPTO anticipates that filings in the system will start slowly and increase gradually over time.

INTELLECTUAL PROPERTY POLICY AND LEADERSHIP PERFORMANCE

As the largest IP office in the world, the USPTO is leading efforts to develop and strengthen domestic and international IP protection. The growing importance of IP rights and the globalization of economic activity has led to new cooperative initiatives between the USPTO, international bodies, and other IP offices, including the European Patent Office (EPO), the Japan Patent Office, the European Union's Office for Harmonization in the Internal Market for Trademarks and Designs, the World Intellectual Property Organization (WIPO), and the World Trade Organization (WTO). International negotiations, consultations, and information-sharing efforts led by USPTO leaders and international specialists are geared to providing more efficient and cost-effective means of protecting the IP rights of U.S. nationals throughout the world.

The Under Secretary of Commerce for Intellectual Property and Director of the United States Patent and Trademark Office serves as the principal adviser to the President on public policy matters related to IP protection. The USPTO, therefore, plays a critical role in formulating policy on patent, trademark, and copyright issues. Ongoing activities include:

- ***Patent Cooperation Treaty (PCT) Reform*** – In September 2002, WIPO's PCT Assembly approved several major reforms to the PCT based upon reforms first put forward by the U.S. in FY 2000. These reforms will assist in reducing workloads internationally and, through new combined search and examination procedures, will result in a more efficient method for processing applications.

- ***Standing Committee on Law of Patents*** – The USPTO continued to participate in WIPO's Standing Committee of the Law of Patents in an effort to agree to a harmonized set of substantive patent laws. If successful, a final substantive patent law treaty will help control workloads and enable applicants to use a single application to obtain patent protection in a number of different countries.

Under Secretary Rogan (left) and Deputy Secretary of Commerce Samuel W. Bodman present a special bicentennial award to Helen Free for her contributions to American innovation as the co-inventor of a diagnostic test for detecting glucose.

- ***Trilateral Offices*** – The USPTO hosted the 19th Annual Trilateral Conference in San Francisco in November 2001. The meeting focused on identifying possibilities for Trilateral collaboration to address USPTO workload issues.

- ***Standing Committee on Trademarks*** – In FY 2002 the USPTO succeeded in promoting Trademark Law Treaty (TLT) reform as the primary focus of work by the Standing Committee. The TLT presently requires members to accept certain trademark filings on paper. Reform of the TLT would give the USPTO flexibility to convert to complete electronic processing for trademarks. The USPTO also continued its educational work aimed at raising awareness of the need for fair treatment of trademarks and geographical indications.

- ***WTO/Trade-Related Aspects of Intellectual Property Rights (TRIPs)*** – The USPTO actively participated in U.S. delegations to the TRIPs Council of the WTO over the past year. The TRIPs Council continued to review the IP regimes of numerous countries and undertook discussions regarding compulsory licensing of patents in the pharmaceutical sector, the protection of geographical indications, technology transfer and other issues. With the launch of a new round of multilateral trade negotiations in the WTO at Doha, Qatar, in November 2001, the USPTO has remained actively involved in WTO IP issues.

- ***Special 301*** – The USPTO continued to advise the Office of the U.S. Trade Representative (USTR) in the administration of the "Special 301" provisions in U.S. trade law, which requires USTR to identify those countries that do not provide adequate and effective protection for IP rights. The USPTO provided analyses of IP laws of several countries, and participated in numerous bilateral consultations and negotiations conducted by USTR under "Special 301."

Under Secretary Rogan holds bi-lateral discussions with Italian Patent officials.

- ***Free Trade Agreements*** – The USPTO assisted USTR on IP issues in negotiations with Singapore and Chile on Free Trade Agreements. Through these negotiations, the Administration hopes to foster economic growth and eliminate bilateral barriers to trade and investment. To this end, the USPTO has worked with USTR and delegations from each country to assure standards are created that build on the foundation established in the TRIPs Agreement and other international IP agreements to protect intellectual property.

- ***Enforcement/Training*** – In FY 2002, the USPTO was engaged on a number of fronts to strengthen IP administration and enforcement abroad. For example, in December 2001 USPTO hosted the U.S.-Russia Intellectual Property Rights Enforcement Program in Washington, D.C. The conference was attended by Russian officials representing various government agencies involved in the enforcement of IP rights in Russia. In April, the USPTO organized an enforcement seminar in Nanjing and Dalian, China, focusing on TRIPs obligations in developing adequate and effective enforcement systems. In conjunction with the International Intellectual Property Institute (IIPI), the USPTO co-sponsored a program on technology transfer in Beijing, Shenzhen and Dalian, China, in August of 2002. In September 2002, the USPTO organized a program with the IIPI, the Court of Appeals for the Federal Circuit, and George Washington University Law School on the capacity building for specialized IP courts.

- ***APEC Intergovernmental Meeting*** – In July 2002, the USPTO sponsored the 15th Biannual Asian Pacific Economic Cooperation Intellectual Property Experts Group (APEC-IPEG) IP enforcement seminar in Los Angeles. The APEC-IPEG is a forum for government-to-government cooperation and policy dialogue on IP issues in the Asia-Pacific Region. Following the two-day meeting, the USPTO also hosted a separate seminar on IP enforcement. The goal of the seminar was to provide a forum to focus on the process of investigating IP infringements, running effective raids, and preparing an effective prosecution. Presenters at the seminar included prosecutors from the U.S. Department of Justice, agents from the U.S. Customs Service, prosecutors from the Chinese Taipei's Ministry of Justice, and an Assistant Commissioner with the Hong Kong China Customs and Excise Department.

- ***Detailee to China*** – In FY 2002, USPTO detailed a staff member to the U.S. Embassy/Beijing to provide assistance on IP matters, including monitoring WTO compliance, training Chinese officials, and conducting conferences with national and local government officials involved in enforcement, technology transfer, patents, trademarks, copyrights, and trade secrets matters. The staff member traveled throughout China and was invited back to Beijing in October 2002 to chair various sessions of a one-day roundtable on IP.

- ***WIPO Copyright Treaties*** – The two landmark WIPO copyright treaties designed to ensure international protection of copyrighted works, performances, and sound recordings in the digital environment -- the WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty -- entered into force on March 6, 2002, and May 20, 2002, respectively. The USPTO had worked for several years to secure their entry into force.

- ***Copyright Conference*** – In April 2002, the USPTO and the U.S. Copyright Office sponsored a two-day conference to discuss issues confronting copyright policy makers. The Copyright Conference drew participants and speakers from across the U.S. and from three continents.

- ***Standing Committee on Copyright and Related Rights (SCCRR) of the WIPO*** – The USPTO continued to participate in the work of the SCCRR to develop its proposal on treaty language for a new WIPO treaty for the Protection of the Rights of Broadcasting, Cable-casting, and Web-casting Organizations. The SCCRR also monitored national developments in the legal protection of databases and reported on related developments in U.S. legislation.

- ***WIPO Intergovernmental Committee*** – In FY 2002, the USPTO led the U.S. delegation to the WIPO Intergovernmental Committee on Intellectual Property and Genetic Resources, Traditional Knowledge and Folklore. The focus of the U.S. effort was to encourage developing countries to meet stated concerns about protecting genetic resources, traditional knowledge and folklore either through current IP regimes or through non-IP laws, and to strongly discourage the creation of new legal regimes.

- ***International Science and Technology Agreements*** – The USPTO continued working closely with the Department of State in the negotiation of cooperative Science and Technology (S&T) agreements with other countries, including the provisions of the IP annex to S&T agreements that ensure equitable allocation of rights to intellectual property created in the course of cooperative research.

Peter Schulz (left) and Donald Keck (right) co-inventors of fiber optics receive their bicentennial award from Under Secretary Rogan and Deputy Secretary Bodman.

MANAGEMENT CHALLENGES

THE 21ST CENTURY STRATEGIC PLAN

The *21st Century Strategic Plan* is aggressive and far-reaching. Anything less would fall short of the expectations of the U.S. Congress, the applicants for, and owners of, patents and trademarks, the patent and trademark bar, and the public-at-large. Additionally, the failure to adopt the Strategic Plan will have serious negative consequences. The USPTO will be unable to enhance quality, implement e-Government initiatives, reduce pendency (in fact pendency would rise to uncontrollable levels), and reduce paper handling and operating costs. Following is a discussion of the management challenges that the USPTO will face in implementing the plan:

- ***Multilateral and Bilateral Agreements*** – To streamline the intellectual property system and protections, the USPTO must enter into new bilateral and multilateral initiatives and agreements with other IP offices. This includes accelerating PCT reform efforts, focusing on the USPTO's proposal for simplified processing; developing a "universal" electronic application by leveraging the USPTO's experience with trademark applications and the EPO's experience with patent filings; and promoting harmonization to strengthen the rights of American IP holders, making it easier to obtain international protection for their inventions and creations. Reaching agreements on these aspects will require all sides to openly communicate and collaborate toward a more global convergence of patent and trademark standards.

- ***Legislation/Rules*** – The USPTO will propose legislative and regulatory changes to current patent and trademark laws. The fee restructuring aspects will generate additional fee collections to be used to fund the critical investments in resources and technology in support of Strategic Plan goals. Additional changes, including the establishment of corresponding fees, are also being proposed to provide customer choice and streamline the patent and trademark examination processes. The implementation of these changes, particularly enactment of the fee restructuring legislation, is essential and critical to accomplishing the Strategic Plan.

- ***Labor Relations*** – The Strategic Plan introduces a large number of changes to current work processes and procedures. The USPTO will notify the three bargaining units representing USPTO employees of the proposed changes and negotiate, where necessary, on any changes in working conditions. The USPTO must be able to implement these changes in work processes in a timely manner in order to meet Strategic Plan goals and objectives. This must be done in light of labor requirements for coordination, communication, and negotiation.

- ***Funding*** – Sufficient and sustained funding over the five-year lifecycle of the Strategic Plan is essential. Without this, the USPTO will not be able to make critical investments in resources and technology necessary for enhancing quality, developing and/or acquiring automated systems to move to a fully electronic operating environment, and improving pendency.

SPACE CONSOLIDATION - MOVE TO CARLYLE IN ALEXANDRIA, VIRGINIA

The USPTO will be concentrating on the high priority of relocating employees to a consolidated campus in Alexandria, Virginia, while minimizing any adverse effects on employees, applicants and the public. The USPTO is quickly moving into the implementation phase of the relocation of its facilities from 18 buildings spread throughout Crystal City to a single lease in a consolidated campus. Relocation to Alexandria will be phased to coincide with delivery of five interconnected buildings.

The USPTO will face numerous logistical and operational challenges in executing the consolidation. Dual operations, including dual computer facilities, will be required during the phasing of the relocation because the space will be delivered over a protracted period. Supporting employees and customers at geographically separate locations will require careful planning. And the disruptions and downtime during the move must be minimized to avoid a significant impact on productivity. However, the long-term benefit will be a world-class facility with operational efficiencies and improved allocation of work space to accommodate the USPTO's growing and changing workplace. This consolidation is expected to save $72 million over the 20-year term of the lease.

In FY 2002, the space consolidation project officially entered the construction phase. In October 2001, the developer, LCOR, began engaging in a number of pre-construction activities, including relocation of site utilities and preliminary soil work for excavation. On December 19, 2001, the General Services Administration (GSA) executed an amended and restated lease that incorporated the design changes that the City of Alexandria required as a condition of the special use permit that LCOR needed before proceeding with construction. The amended lease also memorialized several lease modifications that facilitated the bond sale that occurred later that same day, enabling LCOR to receive project funding and to purchase the underlying land from the Norfolk Southern Railroad. Immediately after receiving financing, LCOR awarded a contract to Roy F. Weston, Inc., for excavation, and to Turner Construction for general construction.

The Remsen Building, seen here under construction, is scheduled to be occupied in December 2003.

With the aid of exceptionally conducive weather for construction throughout the entire fiscal year, all phases of construction are currently either on or ahead of schedule. On October 17, 2002, the developer and general contractor hosted a "topping out" ceremony at the site to mark the completion of the concrete superstructures for the first two buildings which will be occupied in December 2003. Full occupancy is expected by mid-2005.

On the left is the Jefferson Building, like the Remsen Building, it is scheduled for occupancy in December 2003.

STRENGTHENING MANAGEMENT: The President's Management Agenda USPTO Scorecard

The President has established a bold strategy for improving the Federal Government's management and performance, and calls on Government agencies to focus on the most critical of these problems and solve them. The chart below provides the USPTO's assessment on the five Government-wide initiatives described in the President's Management Reform Agenda.

INITIATIVE	STATUS: 11/01	STATUS: 9/02
Human Capital: The USPTO's new *21st Century Strategic Plan* supports the human capital elements. The current organization structure supports decision-making at the lowest appropriate level. In the primary examination units – the Patent Organization and the Trademark Organization – only one layer of management exists between the Senior Executive Service level and the patent examiner or trademark examining attorney. Primary patent examiners and trademark attorneys have full signatory authority to grant patents and register trademarks on behalf of the United States without further supervisory review. Pre-employment testing of patent examiners was implemented in July 2002. Reorganizations in support of the Strategic Plan will redirect approximately 173 positions to the front line and streamline organization structures to maximize quality and efficiency; the redirection of all targeted employees is subject to full budget funding in FY 2003. Transition planning is not an issue for the USPTO as the average age of employees is 40.	PROGRESS	PROGRESS
Competitive Sourcing: USPTO has completed the reassignment of 101 Legal Instrument Examiners (from FY 2000 FAIR Act Inventory) ahead of the scheduled completion by the end of FY 2002. As a result, USPTO has met the President's five percent outsourcing goal for 2002. In FY 2002, our FAIR Act inventory identified approximately 45 percent of our Federal workforce or 3,028 employees as performing commercial type activities (ten percent increase over FY 2000 report). Of these positions, USPTO has initiated pilot projects to be completed by the end of FY 2003 to outsource over 230 positions. These actions will ensure that USPTO meets the President's outsourcing goal of ten percent for FY 2003. Our Strategic Plan has identified other outsourcing opportunities for classification and search functions that will be outsourced subject to full budget funding in FY 2003.	GOAL NOT MET	GOAL MET
Improved Financial Management: For FY 2001, USPTO received its ninth consecutive unqualified audit opinion and fifth year with no material weaknesses. The USPTO is in compliance with all Federal accounting principles and standards (e.g., SFFAS and SFFAC) and has encountered no instances of material weaknesses in internal controls or non-compliance with Federal accounting regulations. The USPTO Enterprise Data Warehouse (EDW) accommodates both financial and operational data and is used extensively by Supervisory Patent Examiners to manage processing timeframes. The USPTO also operates a mature Activity Based Cost (ABC) system that documents all costs for the organization, both direct and indirect, and captures costs for core mission activities. Data from the ABC system are used to analyze the cost of operations when making management decisions regarding improving processes or setting fees and in developing budget requirements.	GOAL MET	GOAL MET
E-Government: All major system investments are included in Exhibit 53 and have submitted business cases in Exhibit 300 format. The USPTO web site was rated number one out of 148 web sites by PricewaterhouseCoopers Endowment for the Business of Government. The USPTO achieved 72 percent on time success for major IT systems. The Strategic Plan accelerates the USPTO's strategy for implementing both Patent and Trademark e-Gov. Trademarks will implement the final application, an electronic file management system called Trademark Information System (TIS), in 2003 completing a ten-year effort to provide an end-to-end fully electronic processing environment. Tools for Electronic Application Management (TEAM), the centerpiece of the Patent e-Gov initiative, is a document management/workflow system that the USPTO will develop to provide the capability to electronically process a patent application. The USPTO has also been actively working with the European Patent Office (EPO) to assess the feasibility of implementing two EPO applications - Phoenix, an imaging tool, and epoline, an e-filing tool - as part of the USPTO's accelerated Patent e-Gov initiative.	PROGRESS	PROGRESS
Budget/Performance Integration: The USPTO develops an annual corporate plan that is an integrated performance plan and budget. Budget resources are allocated to the programs based on the requirements identified to achieve organizational goals and forecasted incoming workload. As workload projections and fee income change, resource allocations are modified accordingly. In June 2002, the USPTO issued a Strategic Plan that included detailed documentation analyzing all of the related issues, a five-year implementation plan with identified critical tasks, proposed revisions to the fiscal year 2003 budget request to enable early implementation of the Strategic Plan, and corresponding proposed legislation and regulations necessary for a successful multi-year implementation. The Strategic Plan provides the USPTO and external organizations (e.g., Administration, OMB, Congress, stakeholders) with a long-term vision of agency goals, expectations for funding, and planned outcomes.	GOAL MET	GOAL MET

MANAGEMENT CONTROLS AND COMPLIANCE WITH LAWS AND REGULATIONS

This section provides information on the USPTO's compliance with the following legislative mandates:

- Federal Managers' Financial Integrity Act (FMFIA)
- Inspector General (IG) Act Amendments
- Federal Financial Management Improvement Act (FFMIA)
- OMB Financial Management Indicators
- Prompt Payment Act
- Civil Monetary Penalty Act
- Debt Collection Improvement Act
- Biennial Review of Fees

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT

The FMFIA requires Federal agencies to provide annually a statement of assurance regarding management controls and financial systems. The statement of assurance is provided in the Director's opening letter in the front of this report. This statement was based on the review and consideration of a wide variety of evaluations, internal analyses, reconciliations, reports, and other information, including DOC OIG audits, and independent public accountant's opinion on USPTO financial statements and reports on internal control and compliance with laws and regulations. In addition, USPTO is not identified on the General Accounting Office's (GAO) High Risk List related to controls governing various areas.

During the second quarter of FY 2002, the OIG reviewed the USPTO Information Technology (IT) Security Program and reported that none of USPTO's eight critical information systems were certified and accredited. These eight systems include patent applications, trademark processing, revenue accounting, and the USPTO local area network. Although the USPTO made great strides in this past fiscal year to establish a robust IT Security Program and certify and accredit its critical information systems, none of its information systems were certified and accredited by the end of the fiscal year. The USPTO has declared a material weakness in recognition of the need for compliance with Government guidance on IT Security and to reconfirm its commitment to the protection of our Nation's intellectual capital information assets.

USPTO aggressively pursued and accomplished the following in FY 2002 regarding certification and accreditation (C&A):

- Detailed vulnerability analyses for critical systems as part of a C&A pilot;
- Independent vulnerability analysis of our network perimeter;
- Award and in-process execution of a Security Architecture contract, which creates the template by which USPTO's other systems can imitate to the benefit of a reduced effort C&A; and
- Award and in-process execution of a C&A delivery contract beginning with the Perimeter Access System.

The entire process for C&A of these systems has not yet been completed, but is scheduled for completion in FY 2003.

INSPECTOR GENERAL ACT AMENDMENTS

Section 106 of the IG Act Amendments (Public Law 100-504) of The Inspector General Act (as amended) requires semi-annual reporting on IG audits and related activities as well as agency follow-up. The report is required to provide information on the overall progress on audit follow-up and internal management controls, statistics for audit reports with disallowed costs, and statistics on audit report with funds put to better use. The USPTO did not have audit reports with disallowed costs or funds put to better use.

The USPTO's follow-up actions on audit findings and recommendations are essential to improving the effectiveness and efficiency of our programs and operations. For FY 2002, management completed action on one outstanding recommendation on reports issued in FY 2001 and prior, leaving two recommendations open. In addition, action was taken to close two recommendations contained in two audit reports issued in FY 2002. These two audit reports still have two recommendations remaining open. For summary of audit findings and recommendations, see page 43.

FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT

The FFMIA requires Federal agencies to report on agency substantial compliance with Federal financial management system requirements, Federal accounting standards, and the U.S. Government Standard General Ledger. The USPTO complied substantially with the FFMIA for FY 2002.

OMB FINANCIAL MANAGEMENT INDICATORS

The OMB prescribes the use of quantitative indicators to monitor improvements in financial management. The USPTO tracks other financial performance measures as well. The table below shows the USPTO's performance during FY 2002 against performance targets established internally and by OMB:

Financial Performance Measure	FY 2002 Target	FY 2002 Performance
Percentage of Timely Vendor Payments	95%	99%
Percentage of Payroll by Electronic Transfer	90%	99%
Percentage of Treasury Agency Locations Fully Reconciled	95%	100%
Timely Posting of Inter-Agency Charges	30 days	29 days
Timely Reports to Central Agencies	95%	100%
Average Processing Time for Travel Payments	8 days	6 days
Audit Opinion on FY 2002 Financial Statements	Unqualified	Unqualified
Material Weaknesses Reported for FY 2002	None	None

STATUS OF AUDIT RECOMMENDATIONS
as of September 30, 2002

Report for Fiscal Year	Status	Recommendation	Action Plan	Completion Date
FY 2001	Open	To improve overall personnel operations regarding the clearing of backlogged personnel actions forms and strengthening internal controls over the OPFs.	All OPFs were reviewed for physical/chronological integrity and accurate SCD dates as of September 2002. Printing all missing SF-50's started in January 2002 and is still in progress.	Estimated September 2004
FY 2001	Closed	Consider additional alternative training methods to maximize training resources, including (a) increasing the use of joint training sessions with WIPO and industry associations, (b) using contractors who are experts in intellectual property and can be relied upon to promote U.S. government objectives to conduct training seminars, and (c) using Internet-technology and other methods for long distance education for training.	A proposal covering a twelve month period of time was prepared in January 2002 with a focus on problem countries. The first video conference training was conducted in February 2002.	January 2002
FY 2001	Open	Coordinate training in international intellectual property law enforcement and provide clarification of the Council's role to the other agencies involved.	New methods for evaluation have been implemented for beta testing. The remaining action items to roll out completed methodology, record the baseline measurement, develop qualitative goals for effectiveness measure, and begin measuring effectiveness against goals have been delayed due to lack of funding.	Estimated January 2004
FY 2002	Open	Reexamine the recruiting process to determine whether recruiting techniques can be developed to better identify those applicant most suited, and those not suited, for the patent examination process.	The action plans to (a) partner with OPM to conduct a study to determine if we can develop examiner candidate characteristics and a series of questions for use as a recruiting tool to identify candidates that would be successful as a patent examiner and (b) implement pre-employment testing of applicants for oral and written communication skills have been delayed due to lack of funding.	Estimated October 2003
FY 2002	Open	Reexamine the recruiting process to better inform patent examiner applicants about the nature of USPTO's production-oriented work environment.	The vacancy announcements have been revised to describe the patent examiner position in more detail. A training session for new recruiters on interviewing techniques was conducted on September 3, 2002. It was also emphasized at that training the importance of informing job applicants on the quality, timeliness and production requirements of the examiner job. The hiring brochures have been updated and printed. They include information on skills required for the job. We have continued to build on relationships with universities. We have provided an intellectual property lecture at West Virginia University to both senior engineering students and to faculty over the past 3 years. We also provided a lecture to a senior design class in electrical engineering. Other efforts include IP lectures with Brown University, University of Maryland, Virginia Tech, University of Puerto Rico, Penn State and University of Alabama.	Estimated September 2003
FY 2002	Closed	Ensure that criteria for technical assistance activities to developing countries and countries moving to a market economy be clearly documented and updated on a regular basis.	The Office of Legislative and International Affairs has updated the list and will keep it current on a regular basis by documenting any additions or deletions to the list.	May 2002
FY 2002	Closed	Require that the description of verification procedures for patent and trademark performance measures reported in the Department's Annual Performance Plan and Annual Program Performance Report be revised to more accurately and completely describe the procedures performed.	The Office of Corporate Planning has drafted new language describing the verification procedures for patent and trademark performance measures. The new verification procedures are identified in the Department of Commerce FY 2003 Annual Performance Plan/2001 Annual Performance Report and in the USPTO's FY 2001 Performance and Accountability Report.	May 2002

PROMPT PAYMENT ACT

The Prompt Payment Act requires Federal agencies to report on their efforts to make timely payments to vendors, including interest penalties for late payments. In FY 2002, the USPTO did not pay interest penalties on 97.8 percent of the 10,684 vendor invoices processed, representing payments of approximately $357.4 million. Of the 347 invoices that were not processed in a timely manner, the USPTO was required to pay interest penalties on 115 invoices, and was not required to pay interest penalties on 232 invoices, where the interest was calculated at less than $1. The USPTO paid only $139 in interest penalties for every million dollars disbursed in FY 2002. Virtually all recurring payments were processed by electronic funds transfer (EFT) in accordance with the EFT provisions of the Debt Collection Improvement Act of 1996.

CIVIL MONETARY PENALTY ACT

There were no Civil Monetary Penalties assessed by the USPTO during FY 2002.

DEBT COLLECTION IMPROVEMENT ACT

The Debt Collection Improvement Act prescribes standards for the administrative collection, compromise, suspension, and termination of Federal agency collection actions, and referral to the proper agency for litigation. Although the Act has no material effect on the USPTO since it operates with minimal delinquent debt, the organization transferred all debt more than 180 days old to the U.S. Department of Treasury (Treasury) for cross-servicing.

BIENNIAL REVIEW OF FEES

The Chief Financial Officers Act of 1990 requires a biennial review of agency fees, rents, and other charges imposed for services and things of value it provides to specific beneficiaries as opposed to the American public in general. The objective of the review is to identify such activities and to begin charging fees, where permitted by law, and to periodically adjust existing fees to reflect current costs or market value so as to minimize general taxpayer subsidy of specialized services or things of value (such as rights or privileges) provided directly to identifiable non-Federal beneficiaries. The USPTO is a fully fee-funded agency without subsidy of general taxpayer revenue. For non-legislative fees, it uses activity-based cost accounting to evaluate the costs of activities and determine if fees are set appropriately. When necessary, fees are adjusted to be consistent with the program and with the legislative requirement to recover full cost of the goods or services provided to the public.

FINANCIAL HIGHLIGHTS

FINANCIAL MANAGEMENT SUPPORTS THE 21ST CENTURY STRATEGIC PLAN

The USPTO continues to operate from a solid financial and administrative management foundation that is well positioned to successfully support the requirements of the USPTO *21st Century Strategic Plan* and the President's Management Agenda. USPTO has sound financial and administrative management policies, procedures, and systems in place that are operating effectively. The challenge in the years to come will be to maintain this level of excellence while the USPTO undergoes its transformation to a "quality-focused, highly productive, responsive organization supporting a market-driven intellectual property system," as envisioned in our *21st Century Strategic Plan*. To meet the goals of the Strategic Plan, our program and business area managers must continue to have access to reliable, timely, and consistent financial and cost information to support day-to-day operational and strategic actions, including decision-making in the areas of budget, investment, personnel, procurement, new initiatives, and taking other actions affecting the finances and performance of the USPTO.

For an agency entrusted with over $1 billion of customers' money each fiscal year, making superior resource management decisions and safeguarding those assets is of utmost importance. It is our duty to use this money responsibly and to be held accountable for achieving desired performance results through the appropriate use of these resources. Audited financial statements or an understanding of the underlying production processes and systems do not independently provide program and operating officials the financial information required for long-range planning, strategic leadership, and decision-making. Rather, we will continue to link and leverage fully the underlying financial data, as conveyed in our Management Discussion and Analysis financial highlights and the financial statements that follow, to increase reliability, accountability, asset use and stewardship, and performance.

To continue providing our business areas with relevant financial information for decision-making, we will further improve and enhance the management tools used for business and process analyses. In this regard, improving our use of cost analysis information from our activity-based cost accounting system continues to be a key financial management challenge. By interlocking program and financial data, we can continue to realize cost savings and reductions, add greater value to current activities, and realize various operational efficiencies and advantages.

As required by the President's Management Agenda, we must also seek better ways to integrate budget and performance data, which is playing an ever-growing role in the planning and budgeting processes. By knowing the "true" cost of doing business, we are better able to integrate cost and performance information, which makes for more informed resource decisions, as well as better long-range and strategic planning decisions.

Recently we converted our financial accounting system to a fully web-enabled, client/server platform, opening the door for a wide array of efficiencies from more timely and accurate internal reports and ad-hoc analyses, to on-line payment and procurement features. We are also exploring the integration of various other business and financial systems to achieve a seamless operational and financial reporting process. Through the integration of systems, functions, activities, and processes, we can place greater focus than ever before on analysis, innovation, efficiency, and leadership, without the need for expending more effort and additional resources.

Improving systems, functions, activities, and processes requires us also to improve our methods for measuring performance and results. To accomplish this, we will focus on the key elements of performance measurement: people, process, technology, and environment. For performance to improve, our employees must fully understand their tasks and responsibilities and be held accountable for performance against realistic targets and goals. The processes and technologies used for production must be increasingly more efficient and effective. And finally, through trust, empowerment and communication with our employees, the USPTO can achieve an environment where performance and results truly drive business operations.

Beyond the financial management challenges outlined above, in FY 2003 we will also initiate our move to the Carlyle campus and will continue the moving process over the next two years. The move will occur in phases as construction is completed to take full financial advantage of our new location. In this re-location of the entire enterprise, we will be challenged to address various financial, administrative, security, and logistical issues that we have not had to deal with in the past.

Because the USPTO currently adheres to sound financial management fundamentals, we are confident that we are well equipped and ready to face our financial management challenges head on.

FINANCIAL MANAGEMENT SUPPORTS THE 21ST CENTURY STRATEGIC PLAN

USPTO's financial statements, provided on pages 61 to 82, received an unqualified (clean) audit opinion issued by the independent auditing firm of Ernst & Young, LLP. This is the tenth consecutive year USPTO has been issued an unqualified audit opinion.

FINANCIAL CONDITION

Net Position

The following table depicts the USPTO's financial condition for the past four fiscal years. There have been gradual increases in both assets and liabilities, indicating steady growth.

Composition of USPTO Assets and Liabilities *(dollars in millions)*	FY 2002	FY 2001	FY 2000	FY 1999
Cash	$ 9.3	$ 11.5	$ 20.0	$ 9.9
Fund Balance with Treasury	926.1	923.4	810.4	673.9
Property and Equipment, Net	119.2	128.6	124.8	129.2
Accounts Receivable and Prepayments	40.9	9.1	7.3	5.3
Total Assets	$1,095.5	$1,072.6	$ 962.5	$ 818.3
Deferred Revenue	$ 466.0	$ 375.0	$ 338.8	$ 279.4
Accounts Payable	74.9	60.2	52.1	53.5
Accrued Payroll, Leave, and Benefits	68.0	80.7	69.0	59.8
Customer Deposit Accounts	64.8	57.5	55.1	50.2
Other Liabilities	11.1	20.6	18.0	10.9
Total Liabilities	$ 684.8	$ 594.0	$ 533.0	$ 453.8
Net Position	$ 410.7	$ 478.6	$ 429.5	$ 364.5

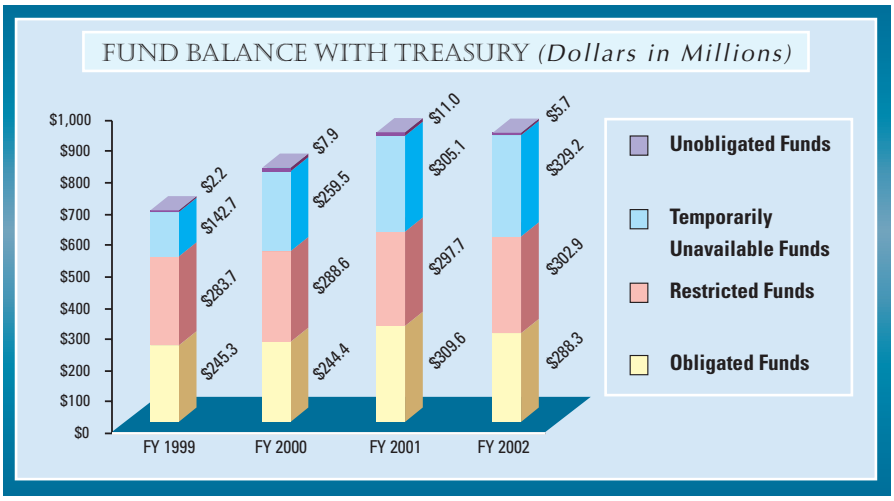
Net position was $410.7 million as of September 30, 2002, a decrease of $67.9 million, or 14.2 percent, from the FY 2001 balance of $478.6 million. The FY 2002 net position consisted of:

- Surcharge revenue withheld of $233.5 million from FY 1992 through FY 1998, which is segregated as a portion of net position pursuant to the Omnibus Budget and Reconciliation Act (OBRA) of 1990, as amended, and is restricted as to its availability;
- Unexpended appropriations of $0.7 million; and
- Cumulative results of operations of $176.5 million.

Adjusting for net property and equipment, accounts receivable, and prepayments, the cash and Fund Balance with Treasury portion of net position is only $16.3 million. The $16.3 million is calculated on a financial accounting basis and does not reflect the impact of obligations for $198.4 million in unpaid undelivered orders (goods and services ordered, but not yet received) less $0.1 million in receivables that provide budgetary resources. Therefore, after considering these items, future funding in the amount of $182.0 million will have to be earned to liquidate unfunded liabilities as of September 30, 2002.

Cash and Fund Balance with Treasury

Cash and Fund Balance with Treasury was $935.4 million as of September 30, 2002, an increase of $0.5 million, or 0.1 percent, over the FY 2001 balance of $934.9 million.



Of the $935.4 million, only $2.7 million, or 0.3 percent, was available to meet FY 2003 needs. The other 99.7 percent was earmarked or set aside as follows:

- $9.3 million represents cash or checks in transit;
- $288.3 million is set aside for the payment of existing obligations as of September 30, 2002;
- $233.5 million continues to be restricted as required by the OBRA;
- $4.6 million is being held on behalf of the WIPO;
- $64.8 million represents funds held on deposit in trust for customers;
- $329.2 million that is restricted for use until subsequent fiscal years; and
- $3.0 million represents unobligated funds that were not apportioned for use at the end of FY 2002.

During FY 2002, the USPTO generated net cash of $0.5 million from patent and trademark fees and other activities, a decrease of $104.0 million, or 99.5 percent, from the $104.5 million generated during FY 2001, summarized as follows.

USPTO Cash Flows *(dollars in millions)*	FY 2002	FY 2001	FY 2000	FY 1999
Operating Activities	$ 59.8	$ 173.6	$ 208.8	$ 122.3
Investing Activities	(60.2)	(69.1)	(59.3)	(77.4)
Financing Activities	0.9	-	(3.0)	(72.0)
Net Cash Provided/(Used)	$ 0.5	$ 104.5	$ 146.5	$ (27.1)

Of the $60.7 million generated from operating and financing activities during FY 2002, $60.2 million of cash generated was invested in new property and equipment. This amount represented a decrease of $8.9 million, or 12.9 percent, from the $69.1 million of net cash invested in property and equipment during FY 2001.

Property and Equipment

Net property and equipment was $119.2 million as of September 30, 2002, which consists of the original acquisition value of $378.6 million less accumulated depreciation of $259.4 million. The acquisition values for property and equipment at the end of the past fiscal year, for the past four years, are presented in the table below:

Property and Equipment Acquisition Values *(dollars in millions)*	FY 2002	FY 2001	FY 2000	FY 1999
IT Equipment	$ 211.3	$ 192.3	$ 167.7	$ 167.0
Software	123.1	108.3	92.8	70.4
Software in Progress	19.6	18.7	19.6	30.7
Furniture	14.5	16.0	17.1	17.0
Non-IT Equipment	10.1	9.1	8.7	9.9
Total Property and Equipment Acquisition Values	$ 378.6	$ 344.4	$ 305.9	$ 295.0

The $34.2 million increase in acquisition value from FY 2001 to FY 2002 is the result of $60.2 million of assets purchased during the fiscal year, less $26.0 million of assets disposed in the normal asset life cycle process.

Deferred Revenue

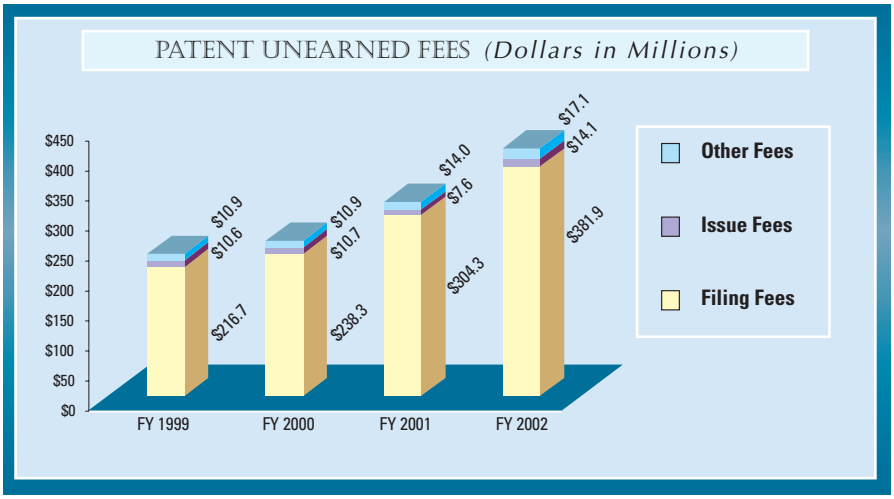
Deferred revenue was $466.0 million as of September 30, 2002, an increase of $91.0 million, or 24.3 percent, over the FY 2001 balance of $375.0 million. The deferred revenue liability includes unearned patent and trademark fees and undeposited checks at the end of the fiscal year, for the past four years, as summarized below:

Deferred Revenue *(dollars in millions)*	FY 2002	FY 2001	FY 2000	FY 1999
Patent Unearned Fees	$ 413.1	$ 325.9	$ 259.9	$ 238.2
Trademark Unearned Fees	43.9	38.4	59.7	32.0
Undeposited Checks	9.0	10.7	19.2	9.2
Total Liability	$ 466.0	$ 375.0	$ 338.8	$ 279.4

Patents

The following chart summarizes the details of unearned patent fees:

Unearned patent fees at the end of FY 2002 were $413.1 million, an increase of $87.2 million, or 26.8 percent, over the prior year balance of $325.9 million. This is due to an increase of more than 16 percent in patent application filings during FY 2002 and an increase in patent pendency from 14.4 months at the end of FY 2001 to 16.7 months at the end of FY 2002. An increase in other unearned patent fees of $3.1 million is primarily due to an increase of $2.6 million for PCT International, or a 21.7 percent increase from the prior fiscal year due to an increase of 42 days in average pendency.

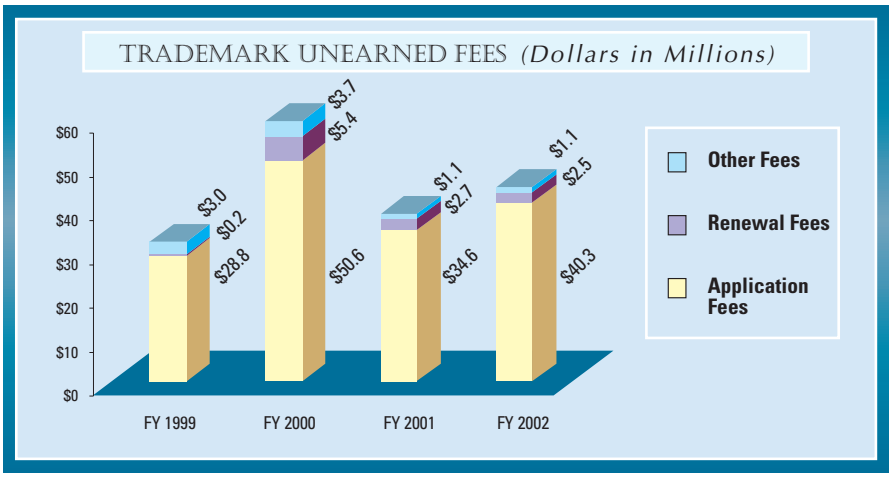


The undeposited checks component of patent deferred revenue decreased $1.4 million, or 15.7 percent, from $8.9 million at the end of FY 2001 to $7.5 million at the end of FY 2002.

Trademarks

The following chart summarizes the details of unearned trademark fees:

Unearned trademark fees at the end of FY 2002 were $43.9 million, an increase of $5.5 million, or 14.3 percent, over the prior year balance of $38.4 million. An increase in new applications resulted in an increase in pre-first action unearned trademark fees of $15.7 million. This increase was offset by a $10.4 million decrease in post-first action unearned trademark fees resulting from a decrease in inventory from the prior fiscal year.



The undeposited checks component of trademark's deferred revenue decreased $0.3 million, or 16.7 percent, from $1.8 million at the end of FY 2001 to $1.5 million at the end of FY 2002.

RESULTS OF OPERATIONS

Net Income/Loss

The following table depicts the USPTO's financial operations for the past four fiscal years.

Components of Net Income/Loss *(dollars in millions)*	FY 2002	FY 2001	FY 2000	FY 1999
Earned Revenue				
Patents	$ 910.1	$ 859.0	$ 817.4	$ 805.0
Trademarks	151.3	181.2	139.1	104.3
Total Earned Revenue	$1,061.4	$1,040.2	$ 956.5	$ 909.3
Program Cost				
Patents	$1,022.3	$ 882.5	$ 781.3	$ 734.0
Trademarks	138.7	134.1	130.0	127.8
Total Program Cost	$1,161.0	$1,016.6	$ 911.3	$ 861.8
Net Income/(Loss)	$ (99.6)	$ 23.6	$ 45.2	$ 47.5

The USPTO incurred a net loss of $99.6 million for FY 2002, as compared to net income of $23.6 million for FY 2001.

The net loss for the patent business line was $112.2 million in FY 2002, an increase of $88.7 million, or 377.4 percent, over the FY 2001 net loss of $23.5 million. This is primarily due to an additional $87.2 million of patent revenue deferred in FY 2002. This change contributed greatly to the Patent Business Line's net loss, as increases in revenue deferred reduce net income.

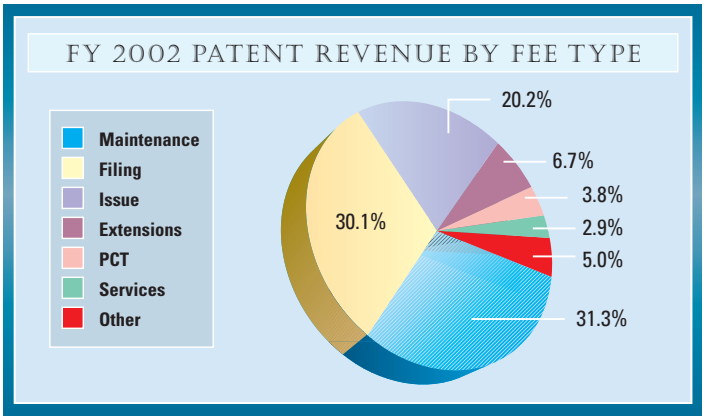
The Trademark Business Line generated net income of $12.6 million in FY 2002, a decrease of $34.5 million, or 73.2 percent, as compared to the FY 2001 net income of $47.1 million. This is partly due to the completion of large volumes of work in FY 2001 received in prior years and a decline in new applications submitted during FY 2002.

Earned Revenue

Earned revenue totaled $1,061.4 million for FY 2002, an increase of $21.2 million, or 2.0 percent, over FY 2001 earned revenue of $1,040.2 million. Of fees earned during FY 2002, $307.8 million related to revenue deferred in prior fiscal years, $323.6 million related to maintenance fees collected during FY 2002, which are considered earned immediately, and $430.0 million related to work performed on fees collected during FY 2002. Patent and Trademark operating results are discussed in greater detail below.

Patents

Patent operations earned $910.1 million in revenue for FY 2002, a $51.1 million, or 5.9 percent, increase over $859.0 million of revenue in FY 2001.



Traditionally, patent maintenance fees are the largest category of patent fees. Therefore, fluctuations in rates of renewal affect patent revenue significantly. However, there can be no assurance that the USPTO will be able to sustain or improve on historic or current renewal rates in future years. For FY 2002, $323.6 million was collected in this category, a $16.1 million, or 5.2 percent, increase over the $307.5 million collected in maintenance fees for FY 2001.

Patent Renewal Rates *	FY 2002	FY 2001	FY 2000	FY 1999
First Stage	85.1%	84.5%	84.3%	83.1%
Second Stage	59.5%	59.9%	59.4%	57.9%
Third Stage	38.4%	39.1%	38.8%	37.7%

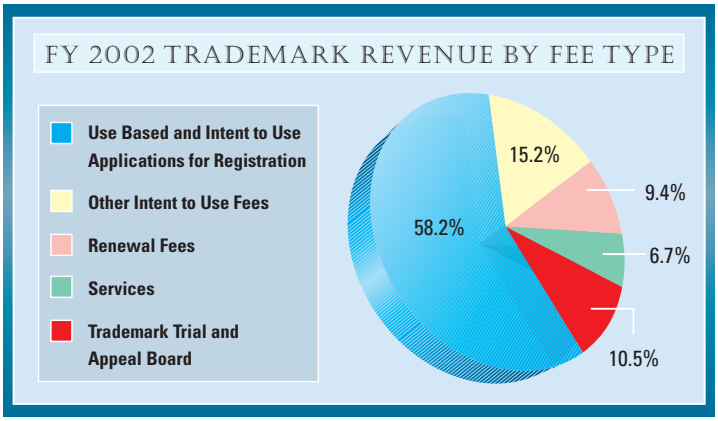
*** Note:** *the First Stage refers to the end of the 3rd year after the patent is issued; the Second Stage refers to the end of the 7th year after the patent is issued; and the Third Stage refers to the end of the 11th year after the patent is issued*

Trademarks

Trademark operations earned $151.3 million in revenue for FY 2002, a 16.5 percent decrease from $181.2 million in FY 2001 earned revenue. This decrease is due to recognizing revenue that was deferred in prior years, but earned in FY 2001 when trademark business operations completed a backlog of work that had accumulated during previous years.

The USPTO charges a combined fee for the registration of both Use Based and Intent to Use applications. Then, another fee is charged for Intent to Use applications because these applications require additional disclosures for trademark examiner review.

Trademark renewals are required only if continued protection is requested. To some extent, renewals subsidize costs incurred during the initial registration process.



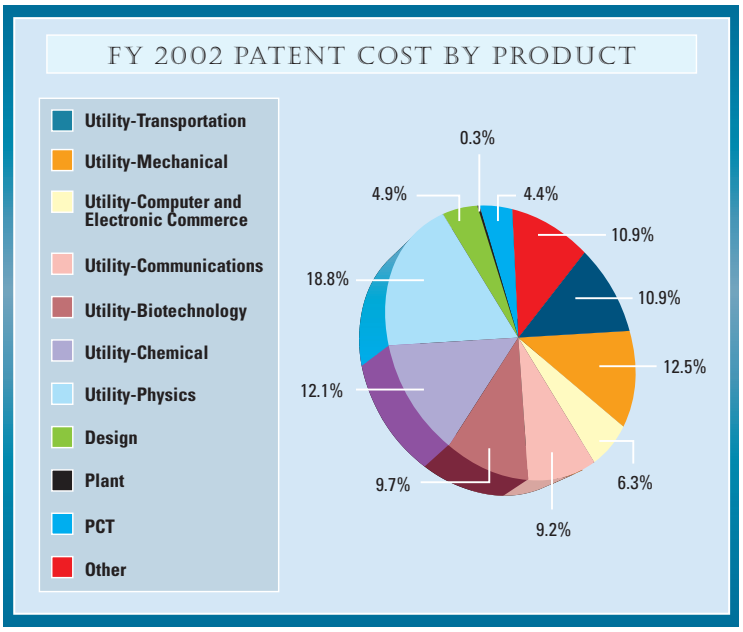
Trademark Renewal Rates *	FY 2002	FY 2001	FY 2000	FY 1999
Renewals	25.2%	21.2%	19.2%	9.6%

*** Note:** *the renewals occur every 10th year for trademarks registered after November 15, 1989. For trademarks issued or renewed before November 15, 1989, renewal will occur after the 20th year and the renewal will be for a 10-year period.*

Program Costs

Program costs totaled $1,161.0 million for the year ended September 30, 2002, an increase of $144.4 million, or 14.2 percent, over FY 2001 program costs of $1,016.6 million. The USPTO's most significant program costs relate to personnel services and benefits costs. These personnel costs traditionally comprise over 50 percent of USPTO's total program costs. Any significant change or fluctuation in staffing or pay rate patterns directly impacts the change in total program costs from year to year. Total direct personnel services and benefits costs for the year ended September 30, 2002, were $587.7 million, an increase of $85.8 million, or 17.1 percent, over FY 2001 direct personnel services and benefits costs of $501.9 million. This change is the result of a net increase of 513 personnel, from 6,426 at the end of FY 2001 to 6,939 at the end of FY 2002 (8.0 percent increase), and a 4.8 percent increase in the Federal pay scale.

Rent, communications, utilities, contractual services, and depreciation costs traditionally comprise one third of USPTO's total program costs each year. Contractual services directly attributable to business lines for the year ended September 30, 2002, were $143.4 million, an increase of $26.2 million, or 22.4 percent, over FY 2001 contractual service costs of $117.2 million. Increases were largely in the patent business line due to increasing information technology costs, primarily automated systems operational support, and file maintenance and related office administrative support.

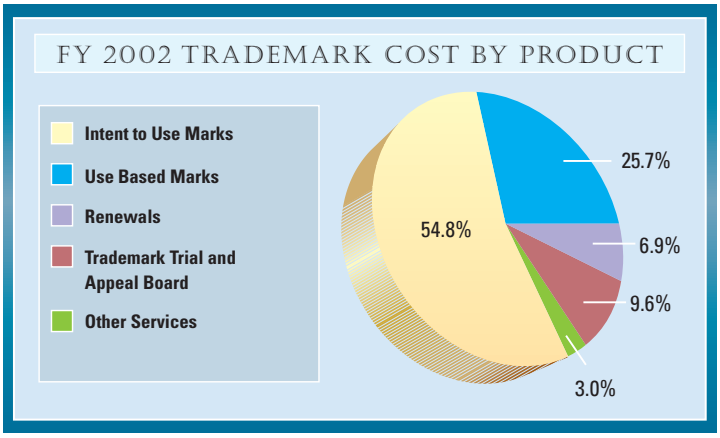


Patents

Program costs attributable to patent operations totaled $1,022.3 million for FY 2002, an increase of $139.8 million, or 15.8 percent, over a total patents program cost of $882.5 million in FY 2001. Patent costs are spread over four main patent products: utility patents, design patents, plant patents, and PCT. The cost percentages presented are based on direct and indirect costs allocated to patent operations and are a function of the volume of applications processed in each product area.

Trademarks

Program costs attributable to trademark operations totaled $138.7 million in FY 2002, an increase of $4.6 million, or 3.4 percent, over the total trademarks program cost of $134.1 million in FY 2001. Trademark costs are comprised of processing three main products: Intent to Use marks, Use Based marks, and renewals after registration, which involves processing affidavits, corrections, and amendments. While contractual service costs directly attributable to the trademark business increased 35.4 percent, several other cost categories decreased in FY 2002 compared to FY 2001, including maintenance and repairs, supplies and materials, depreciation, and amortization costs.



The Intent to Use cost include costs related to examining both the application and the additional intent to use disclosures. The overall cost percentages presented are based on both direct costs and indirect costs allocated to trademark operations and are a function of the volume of applications processed in each product area.

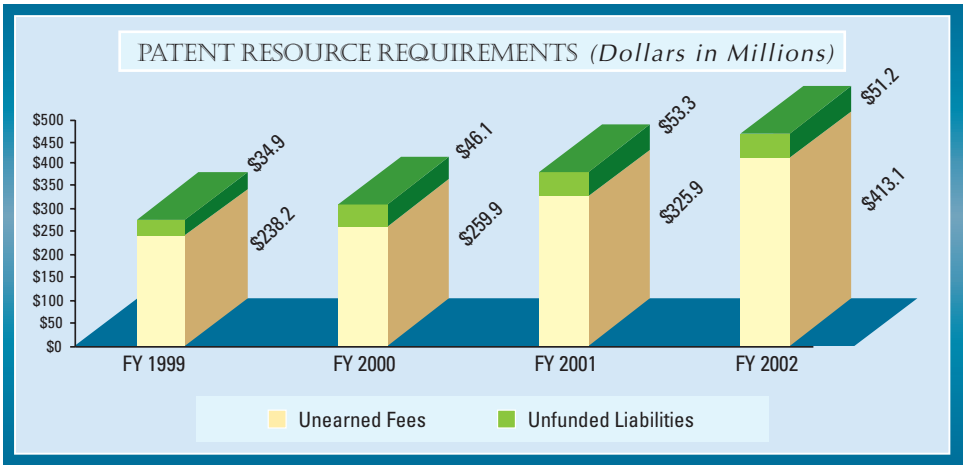
BUDGETARY RESOURCES AND REQUIREMENTS

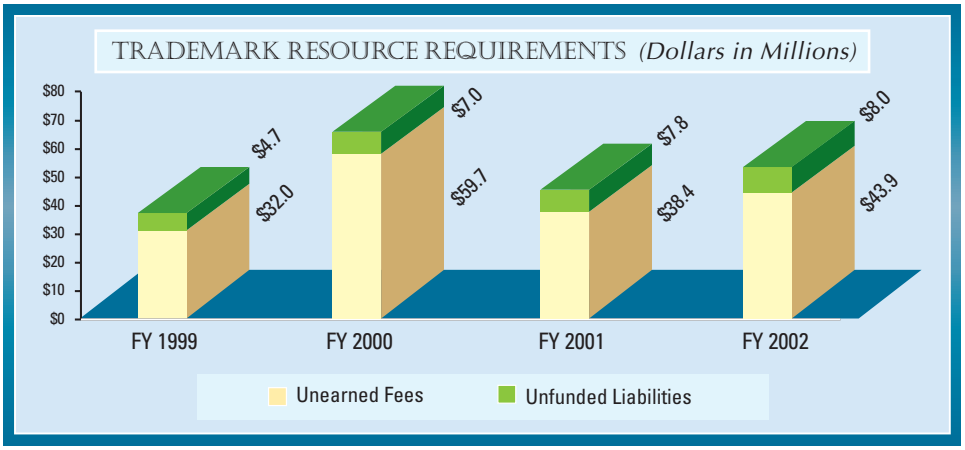
For FY 2002, budgetary resources available for spending totaled $1,146.7 million, a 9.2 percent increase over the FY 2001 total of $1,049.8 million. Financially, the USPTO is a self-sufficient Federal government agency that funds the cost of its operations from user fees rather than appropriations from taxes paid into the general fund of the U.S. Department of the Treasury. As a Government agency, the USPTO's goal is to realize budgetary resources provided through the collection of user fees that are equal to budgetary spending incurred to fill customer orders, rather than generating net income. Major fees are set by statute and activity-based cost accounting techniques assist in approximating fee amounts necessary to recover the cost of non-statutory fees. The USPTO is refining these cost accounting techniques continually and furthering its fee analyses to improve its assessment of fee requirements.

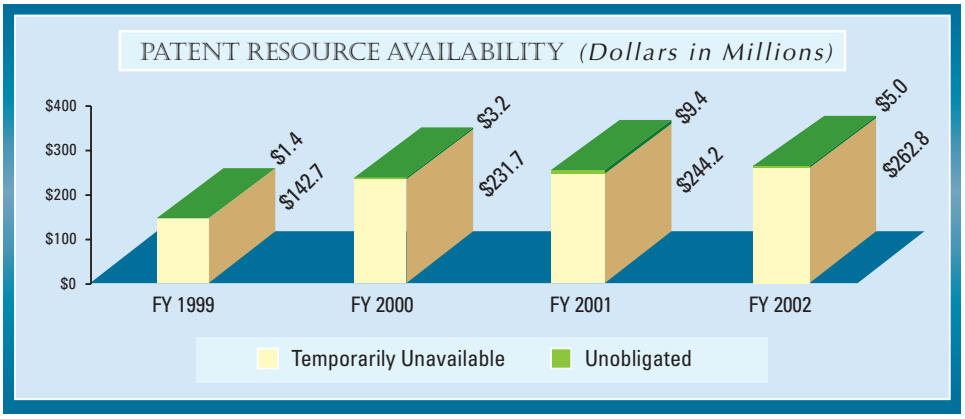
Temporarily unavailable fee collections occur when the Congress does not allow the USPTO to spend all fees collected during a given fiscal year. In FY 2002, the USPTO was appropriated $282.3 million from fees collected in fiscal years 2000 and 2001, leaving only $22.8 million in FY 2001 fees still not available for spending. The USPTO was also appropriated $843.7 million for fees collected during FY 2002. During FY 2002, the USPTO collected an additional $304.1 million that was not available for spending. $318.9 million was appropriated under a continuing resolution for spending through January 11, 2003. The USPTO does not know when the remaining $22.8 million from FY 2001 fees and $303.5 million from FY 2002 fees will be appropriated.

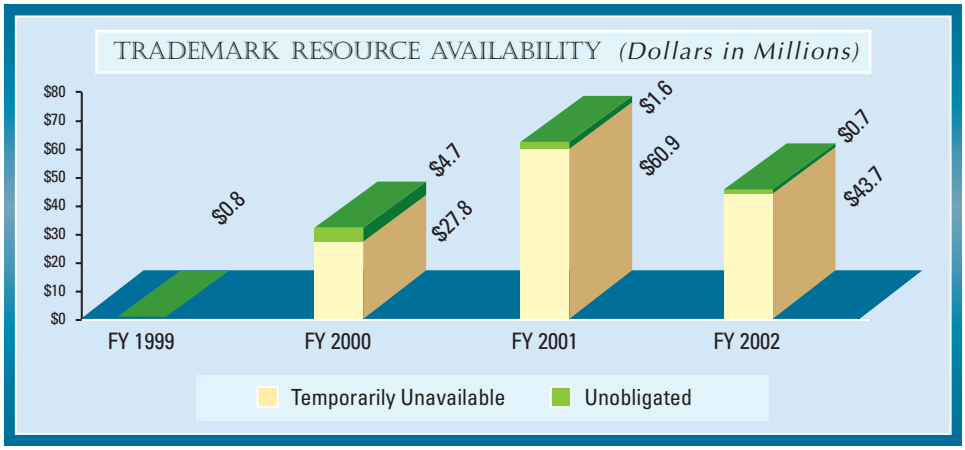
During FY 2002, a total of $555 thousand in fees was rescinded, reducing a portion of the USPTO fee resources. These fees were withheld to fund homeland security programs.

The following charts show the resources required to meet financial responsibilities compared to the resources available for this purpose. Unfunded liabilities related to earned fee collections, as well as a liability for work to be performed on unearned fee collections are a measure of commitment to vendors and customers for services and orders that the USPTO has received and taken through FY 2002.




TRADEMARK RESOURCE REQUIREMENTS (Dollars in Millions)
$80
$70
$60
$50
$40
$30
$20
$10
$0
$4.7
$32.0
$7.0
$59.7
$7.8
$38.4
$8.0
$43.9
FY 1999
FY 2000
FY 2001
FY 2002
Unearned Fees
Unfunded Liabilities


PATENT RESOURCE AVAILABILITY (Dollars in Millions)
$400
$300
$200
$100
$0
$1.4
$142.7
$3.2
$231.7
$9.4
$244.2
$5.0
$262.8
FY 1999
FY 2000
FY 2001
FY 2002
Temporarily Unavailable
Unobligated


TRADEMARK RESOURCE AVAILABILITY (Dollars in Millions)
$80
$70
$60
$50
$40
$30
$20
$10
$0
$0.8
$4.7
$27.8
$1.6
$60.9
$0.7
$43.7
FY 1999
FY 2000
FY 2001
FY 2002
Temporarily Unavailable
Unobligated

LIMITATIONS

The USPTO has prepared its FY 2002 Financial Statements in accordance with the requirements of OMB Bulletin Number 01-09, *Form and Content of Agency Financial Statements,* and guidance provided by the Department of Commerce. OMB Bulletin Number 01-09 incorporates the concepts and standards contained in the Statements of Federal Financial Accounting Concepts (SFFAC) and the Statements of Federal Financial Accounting Standards (SFFAS) recommended by the Federal Accounting Standards Advisory Board (FASAB) and approved by the Secretary of the Treasury, the Director of the OMB, and the Comptroller General.

On October 19, 1999, the American Institute of Certified Public Accountants Council designated the FASAB as the accounting standards-setting body for Federal government entities. Therefore, the SFFAS constitute accounting principles generally accepted in the United States for the Federal government. These concepts and standards have been set by FASAB to help Federal agencies comply with the requirements of the *Chief Financial Officers Act of 1990*, as amended by the *Government Management and Reform Act of 1994.* These two Acts demand greater financial accountability from Federal agencies and require the integration of accounting, financial management, and cost accounting systems.

The financial data in this report and the financial statements that follow have been prepared from the accounting records of the USPTO in conformity with accounting principles generally accepted in the United States. The USPTO's financial statements consist of the Balance Sheet, the Statement of Net Cost, the Statement of Changes in Net Position, the Statement of Budgetary Resources, the Statement of Financing, and the Statement of Cash Flows. The following limitations apply to the preparation of the financial statements:

- The financial statements were prepared to report the USPTO's financial position, net cost of operations, budgetary resources, and cash flows pursuant to the requirements of 31 U.S.C. 3515 (b).

- While the statements are prepared from books and records in accordance with the formats prescribed by the OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.

- The statements should be read with the realization that the USPTO is a component of the U.S. Government, a sovereign entity. One implication is that unfunded liabilities cannot be liquidated without legislation that provides resources to do so.

In addition, certain information contained in this financial discussion and analysis and in other parts of this report may be deemed forward-looking statements regarding events and financial trends that may affect future operating results and financial positions. Such statements may be identified by words such as "estimate," "project," "plan," "intend," "believe," "expect," "anticipate," or variations or negatives thereof or by similar or comparable words or phrases. Prospective statements are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in the statements. Such risks and uncertainties include, but are not limited to, the following: changes in U.S. or international intellectual property laws; changes in U.S. or global economic conditions; the availability, hiring and retention of qualified staff employees; management of patent and trademark growth; Government regulations; disputes with labor organizations; and deployment of new technologies. The USPTO undertakes no obligation to publicly update these prospective statements to reflect events or circumstances after the date hereof, or to reflect the occurrence of unanticipated events.

MANAGEMENT RESPONSIBILITIES

USPTO management is responsible for the fair presentation of information contained in the principal financial statements, in conformity with accounting principles generally accepted in the United States and the requirements of OMB Bulletin Number 01-09 and guidance provided by the DOC. Management is also responsible for the fair presentation of the USPTO's performance measures in accordance with OMB requirements. The quality of the USPTO's internal control rests with management, as does the responsibility for identifying and complying with pertinent laws and regulations.

Principal Financial Statements and Related Notes

U.S. PATENT AND TRADEMARK OFFICE CONSOLIDATED BALANCE SHEETS

As of September 30, 2002 and 2001

(Dollars in Thousands)	2002	2001
ASSETS		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	$ 926,130	$ 923,361
Accounts Receivable	99	1,547
Advances and Prepayments	34,844	4,523
Total Intragovernmental	$ 961,073	929,431
Cash	9,270	11,515
Accounts Receivable, Net	4,435	1,245
Advances and Prepayments	1,573	1,805
Property and Equipment, Net (Note 3)	119,184	128,598
Total Assets	$1,095,535	$1,072,594
LIABILITIES		
Intragovernmental:		
Accounts Payable	$ 3,721	$ 3,496
Accrued Payroll and Benefits	2,446	5,293
Accrued Postemployment Compensation	1,180	970
Customer Deposit Accounts	3,749	3,504
Total Intragovernmental	$ 11,096	$ 13,263
Accounts Payable	71,261	57,497
Accrued Payroll and Benefits	31,135	45,061
Accrued Leave	34,461	30,414
Customer Deposit Accounts	61,002	53,955
Patent Cooperation Treaty Account	4,586	6,680
Deferred Revenue (Note 5)	465,974	374,988
Actuarial Liability (Note 6)	5,332	5,526
Capital Lease Liability (Note 7)	—	3,032
Contingent Liabilities (Note 12)	—	3,590
Total Liabilities (Note 4)	$ 684,847	$ 594,006
NET POSITION		
Unexpended Appropriations	$ 679	$ —
Cumulative Results of Operations	176,480	245,059
Revenue Withheld	233,529	233,529
Total Net Position	$ 410,688	$ 478,588
Total Liabilities and Net Position	$1,095,535	$1,072,594

The accompanying notes are an integral part of these financial statements.

U.S. PATENT AND TRADEMARK OFFICE CONSOLIDATED STATEMENTS OF NET COST

For the years ended September 30, 2002 and 2001

(Dollars in Thousands)	2002			2001
	PATENTS	TRADEMARKS	TOTAL	TOTAL
Enhance Quality and Minimize Processing Time				
Intragovernmental Gross Cost	$ 203,138	$ 28,015	$ 231,153	$ 209,034
Gross Cost with the Public	819,153	110,689	929,842	807,323
Total Gross Cost (Notes 9 and 10)	$ 1,022,291	$ 138,704	$ 1,160,995	$ 1,016,627
Intragovernmental Earned Revenue	(5,347)	(149)	(5,496)	(4,783)
Earned Revenue from the Public	(904,734)	(151,117)	(1,055,851)	(1,035,475)
Total Earned Revenue	$ (910,081)	$ (151,266)	(1,061,347)	(1,040,258)
Net Cost/(Income) from Operations	$ 112,210	$ (12,562)	$ 99,648	$ (23,631)
Total Entity				
Total Program Cost (Notes 9 and 10)	$ 1,022,291	$ 138,704	$ 1,160,995	$ 1,016,627
Total Earned Revenue	(910,081)	(151,266)	(1,061,347)	(1,040,258)
Net Cost/(Income) from Operations	$ 112,210	$ (12,562)	$ 99,648	$ (23,631)

The accompanying notes are an integral part of these financial statements.

U.S. PATENT AND TRADEMARK OFFICE
CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION

For the years ended September 30, 2002 and 2001

(Dollars in Thousands)	2002		2001	
	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
Net Position, Beginning of Period	$ 478,588	$ —	$ 429,546	$ —
Budgetary Financing Sources:				
Appropriations Received	—	1,500	—	—
Appropriations Used	822	(822)	—	—
Other Budgetary Financing Sources	(555)	—	—	—
Other Financing Sources:				
Imputed Financing (Note 8)	30,803	—	25,411	—
Total Financing Sources	$ 31,070	$ 678	$ 25,411	$ —
Net Income/(Cost) from Operations	(99,648)	—	23,631	—
Net Position, End of Period	$ 410,010	$ 678	$ 478,588	$ —

The accompanying notes are an integral part of these financial statements.

U.S. PATENT AND TRADEMARK OFFICE
COMBINED STATEMENTS OF BUDGETARY RESOURCES

For the years ended September 30, 2002 and 2001

(Dollars in Thousands)	2002	2001
BUDGETARY RESOURCES		
Budget Authority - Appropriations Received	$ 283,800	$ 254,889
Unobligated Balance - Beginning of Period (Note 11)	11,029	12,479
Spending Authority from Offsetting Collections:		
Earned - Collected	1,052,367	1,040,832
Earned - Customer Receivables and Refund Payables	6,803	(876)
Change in Unfilled Customer Orders - Advance Received	92,662	44,711
Total Spending Authority from Offsetting Collections	$ 1,151,832	$ 1,084,667
Recoveries of Prior Year Obligations	10,076	4,636
Temporarily not Available Pursuant to Public Law	(306,513)	(305,056)
Permanently not Available	(555)	—
Total Budgetary Resources	$ 1,149,669	$ 1,051,615
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred:		
Direct	$ 1,497	$ —
Reimbursable	1,142,517	1,040,586
Unobligated Balances Available:		
Realized and Apportioned for Current Period (Note 11)	2,661	9,223
Unobligated Balances not Available - Not Apportioned	2,994	1,806
Total Status of Budgetary Resources	$ 1,149,669	$ 1,051,615
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS		
Obligated Balance, Net, Beginning of Period	$ 316,289	$ 254,352
Accounts Receivable	548	7,351
Undelivered Orders	198,370	218,207
Accounts Payable	89,423	90,731
Obligated Balance, Net, End of Period	$ 288,341	$ 316,289
Outlays:		
Disbursements	1,155,084	974,889
Collections	(1,145,029)	(1,085,543)
Net Outlays/(Collections)	$ 10,055	$ (110,654)

The accompanying notes are an integral part of these financial statements.

U.S. PATENT AND TRADEMARK OFFICE CONSOLIDATED STATEMENTS OF FINANCING

For the years ended September 30, 2002 and 2001

(Dollars in Thousands)	2002	2001
RESOURCES USED TO FINANCE ACTIVITIES		
Budgetary Resources Obligated:		
Obligations Incurred	$ 1,144,014	$ 1,040,586
Spending Authority from Offsetting Collections and Recoveries	(1,161,908)	(1,089,303)
Net Obligations	$ (17,894)	$ (48,717)
Other Resources - Imputed Financing from Cost Absorbed by Others	30,803	25,411
Total Resources Used to Finance Activities	$ 12,909	$ (23,306)
RESOURCES USED TO FINANCE ITEMS NOT PART OF THE NET COST OF OPERATIONS		
Change in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered but not yet Provided	$ (10,253)	$ (49,304)
Resources that Fund Costs Recognized in Prior Periods (Note 11)	(6,204)	(926)
Budgetary Offsetting Collections that do not Affect Net Cost of Operations (Note 11)	92,662	44,712
Resources that Finance the Acquisition of Assets Capitalized on the Balance Sheet	(60,237)	(69,067)
Net Decrease in Revenue Receivables not Generating Resources until Collected	—	(472)
Total Resources Used to Finance Items not Part of the Net Cost of Operations	$ 15,968	$ (75,057)
COMPONENTS OF NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD		
Components Requiring or Generating Resources in Future Periods:		
Costs that will be Funded by Resources in Future Periods (Note 11)	$ 4,309	$ 9,410
Net Increase in Revenue Receivables not Generating Resources until Collected	(3,095)	—
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	$ 1,214	$ 9,410
Components not Requiring or Generating Resources:		
Depreciation, Amortization, or Loss on Asset Dispositions	69,651	65,320
Other Costs that will not Require Resources	(94)	2
Total Components of Net Cost of Operations that will not Require or Generate Resources	$ 69,557	$ 65,322
Total Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period	$ 70,771	$ 74,732
Net Cost / (Income) from Operations	$ 99,648	$ (23,631)

The accompanying notes are an integral part of these financial statements.

U.S. PATENT AND TRADEMARK OFFICE CONSOLIDATED STATEMENTS OF CASH FLOWS(INDIRECT METHOD)

For the years ended September 30, 2002 and 2001

(Dollars in Thousands)	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (Cost)/Income from Operations	$ (99,648)	$ 23,631
Imputed Financing from Cost Absorbed by Others	30,803	25,411
Net (Decrease)/Increase in Cumulative Results of Operations	$ (68,845)	$ 49,042
Adjustments Affecting Cash Flow:		
(Increase)/Decrease in Accounts Receivable	$ (1,742)	$ 11
Increase in Advances and Prepayments	(30,089)	(1,789)
Increase in Accounts Payable	13,989	8,190
(Decrease)/Increase in Accrued Payroll and Benefits	(16,773)	6,682
Increase in Accrued Leave and Postemployment Compensation	4,257	5,146
Increase in Customer Deposit Accounts	7,292	2,312
(Decrease)/Increase in Patent Cooperation Treaty Accounts	(2,094)	698
Increase in Deferred Revenue	90,986	36,208
(Decrease)/Increase in Actuarial Liability	(194)	945
Decrease in Capital Lease Liability	(3,032)	(2,761)
(Decrease)/Increase in Contingent Liabilities	(3,590)	3,590
Depreciation, Amortization, or Loss on Asset Dispositions	69,651	65,320
Total Adjustments	$ 128,661	$ 124,552
Net Cash Provided by Operating Activities	$ 59,817	$ 173,594
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Property and Equipment	$ (60,237)	$ (69,067)
Net Cash Used in Investing Activities	$ (60,237)	$ (69,067)
CASH FLOWS FROM FINANCING ACTIVITIES		
Direct Appropriation	$ 1,500	$ —
Rescissions	(555)	—
Net Cash Provided by Financing Activities	$ 945	$ —
Net Cash (Used)/Provided by Operating, Investing, and Financing Activities	$ 524	$ 104,527
Fund Balance with Treasury and Cash, Beginning of Period	$ 934,876	$ 830,349
Net Cash Provided by Operating, Investing, and Financing Activities	524	104,527
Fund Balance with Treasury and Cash, End of Period	$ 935,400	$ 934,876

The accompanying notes are an integral part of these financial statements.

U.S. PATENT AND TRADEMARK OFFICE NOTES TO FINANCIAL STATEMENTS

As of and for the years ended September 30, 2002 and 2001

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The U.S. Patent and Trademark Office (USPTO) is an agency of the United States within the U.S. Department of Commerce. The USPTO administers the laws relevant to patents and trademarks and advises the Secretary of Commerce, the President of the United States, and the Administration on patent, trademark, and copyright protection, and trade-related aspects of intellectual property.

These financial statements include the USPTO's two core business activities that promote the use of intellectual property rights as a means of achieving economic prosperity - processing patent applications and registering trademarks. These activities give innovators, businesses, and entrepreneurs the protection and encouragement they need to turn their creative ideas into tangible products, and also provide protection for their inventions and trademarks.

These financial statements report the accounts for salaries and expenses (13X1006), special fund receipts (revenue withheld) (135127), customer deposits from the public (13X6542), customer deposits from other Federal agencies (13F3885), and patent cooperation treaty collections (13X6538), which are under the control of the USPTO. The Federal budget classifies the USPTO under the Commerce and Housing Credit (376) budget function. The USPTO does not have custodial responsibility, nor does it have lending or borrowing authority. The USPTO does not transact business among its own operating units, therefore, no intra-entity eliminations are necessary.

Basis of Presentation

As required by the Chief Financial Officers Act of 1990 and 31 U.S.C. 3515 (b), the accompanying financial statements present the financial position, net cost of operations, budgetary resources, and cash flows for the USPTO's core business activities. The books and records of the USPTO serve as the source of this information.

These financial statements were prepared in accordance with the guidelines specified by the OMB in Bulletin Number 01-09, Form and Content of Agency Financial Statements, as well as the accounting policies of the USPTO. Therefore, they may differ from other financial reports submitted pursuant to OMB directives for the purpose of monitoring and controlling the use of the USPTO's budgetary resources. Certain prior year balances were reclassified to conform with current year presentation.

Basis of Accounting

Transactions are recorded on the accrual basis of accounting as well as on a budgetary basis. Accrual accounting allows for revenue to be recognized when earned and expenses to be recognized when goods or services are received, without regard to the receipt or payment of cash. Budgetary accounting allows for compliance with the requirements for, and controls over, the use of Federal funds. The accompanying financial statements are presented on the accrual basis of accounting. The accounting principles and standards applied in preparing these financial statements are in accordance with the accounting policies and practices summarized in this note and the following hierarchy of accounting principles:

- FASAB Statements and Interpretations plus AICPA and Financial Accounting Standards Board pronouncements if made applicable to Federal governmental entities by a FASAB Statement or Interpretation;
- FASAB Technical Bulletins and the following pronouncements if specifically made applicable to Federal government entities by the AICPA and cleared by the FASAB: AICPA Industry Audit and Accounting Guides and AICPA Statements of Position;

- AICPA Accounting Standards Executive Committee Practice Bulletins if specifically made applicable to Federal governmental entities and cleared by the FASAB and Technical Releases of the Accounting and Auditing Policy Committee of the FASAB;
- Implementation guides published by the FASAB staff and practices that are widely recognized and prevalent in the Federal Government; and
- Other accounting literature published by authoritative standard-setting bodies and other authoritative sources (a) in the absence of other guidance in the first four parts of this hierarchy, and (b) if the use of such accounting principles improves the meaningfulness of the financial statements.

Budgets and Budgetary Accounting

Appropriated funds from general taxpayer revenue were eliminated gradually following the passage of the OBRA in 1990. The OBRA established revenue withholding on statutory patent fees. Subsequent legislation extended the revenue withholding through the end of FY 1998. This withheld revenue constitutes offsetting receipts, and was deposited into a restricted special fund receipt account at the U.S. Department of the Treasury (Treasury). The USPTO may use moneys from this account only as authorized by the U.S. Congress, and only as made available by the issuance of a Treasury warrant. The U.S. Patent and Trademark Reauthorization Act, Fiscal Year 1999, as amended by Public Law 106-113, reset patent statutory fees without the OBRA surcharge. The USPTO has not collected or deposited any fees in the restricted special fund receipt account since 1998. The special fund receipt account has no liabilities currently, and the entire fund balance will remain restricted until appropriated.

Fees other than the restricted revenue withholding are offsetting collections subject to an annual congressional limitation, and are available to the USPTO until expended. Funds authorized but not used in a given fiscal year are carried forward for use in future periods, as appropriated by U.S. Congress.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Revenue and Other Financing Sources

The USPTO's fee rates are established by rule and law and, consequently, in some instances may not represent full cost or market price. Since FY 1993, USPTO funding has been primarily through the collection of user fees. Fees that are remitted with initial applications and requests for other services are recorded as exchange revenue when received, with an adjustment to defer revenue for services that have not been performed yet. All amounts remitted by customers without a request for service are recorded as liabilities in customer deposit accounts until services are ordered.

The USPTO's share of the cost to the Federal government for providing pension and other post-retirement benefits to eligible USPTO employees is recognized as an imputed financing source.

The USPTO also receives some financial gifts and gifts-in-kind from anonymous donors. All such transactions are included in the consolidated Gifts and Bequests Fund financial statements of the Department of Commerce. These gifts are not of significant value and are not reflected in the USPTO's financial statements. Most gifts-in-kind are used for official travel to further the attainment of the mission and objectives of the USPTO.

Entity/Non-Entity

Assets that an entity is authorized to use in its operations are termed entity assets, while assets that are held by an entity and are not available for the entity's use are termed non-entity assets. With the exception of a portion of the Fund Balance with Treasury, all of the USPTO's assets are entity assets and are available to carry out the mission of the USPTO within existing budget constraints.

Fund Balance with Treasury

The USPTO deposits revenue in commercial bank accounts maintained by the Treasury's Financial Management Service (FMS). All moneys maintained in these accounts are transferred to the Federal Reserve Bank on the next business day following the day of deposit. In addition, many customer deposits are wired directly to the Federal Reserve Bank. All banking activity is conducted in accordance with the directives issued by the FMS. All disbursements are processed by the Treasury.

Accounts Receivable

Accounts receivable from the public represent a very small portion of the USPTO's assets as the USPTO requires payment prior to the provision of goods or services during the course of its core business activities. Public accounts receivable are comprised mainly of amounts due from former employees for the reimbursement of education expenses and other benefits.

The USPTO recorded a $13 thousand allowance for uncollectible amounts to reduce the gross amount of its public accounts receivable to its net realizable value as of September 30, 2002 and 2001. The allowance is established for receivables that have been transferred to Treasury. Typically, collection will subsequently occur for most items transferred to Treasury.

Advances and Prepayments

On occasion, the USPTO prepays amounts in anticipation of receiving future benefits. Although a payment has been made, an expense is not recorded until goods have been received or services have been performed. The largest advance, in the amount of $30,413 thousand, is with the GSA for the construction of the Carlyle campus. In addition, the USPTO maintains deposit accounts with the Government Printing Office and DOC to facilitate recurring transactions. The USPTO also advances funds to personnel for travel costs and we expense these amounts after travel has occurred.

Cash

Most of the USPTO's cash balance consists of undeposited checks for fees that were not processed at the Balance Sheet date due to the lag time between receipt and initial review. All such undeposited check amounts are considered to be cash equivalents. As of September 30, 2002 and 2001 the cash balance includes undeposited checks of $9,268 thousand and $11,513 thousand, respectively. Cash is also held outside the Treasury to be used as imprest funds. An imprest fund of $2 thousand was held as of September 30, 2002 and 2001.

Property and Equipment

The USPTO's capitalization policies are summarized below:

Classes of Property and Equipment	Capitalization Threshold for Individual Purchases	Capitalization Threshold for Bulk Purchases
IT Equipment	$25 thousand or greater	$500 thousand or greater
Software	$25 thousand or greater	Not applicable
Software in Progress	$25 thousand or greater	Not applicable
Furniture	$25 thousand or greater	$ 50 thousand or greater
Equipment	$25 thousand or greater	$500 thousand or greater

Contractor costs for developing custom internal use software are capitalized when incurred for the design, coding, and testing of the software. Software in Progress is not amortized until placed in service.

Property and equipment acquisitions that do not meet the capitalization criteria are expensed upon receipt. Fully depreciated assets purchased prior to October 1,1996 may be written off against accumulated depreciation.

Post-employment Compensation

Claims brought by employees of the USPTO for on-the-job injuries fall under the Federal Employees Compensation Act (FECA) administered by the U.S. Department of Labor (DOL). The DOL bills each agency annually as its claims are paid, but payment on these bills is deferred two years to allow for funding through the budget process. As of September 30, 2002, the USPTO recorded a $1,091 thousand liability for claims paid on its behalf during the benefit period July 1, 2000 through September 30, 2002. At September 30, 2001, the USPTO recorded a $917 thousand liability for claims paid on its behalf during the benefit period July 1, 1999 through September 30, 2001.

Employees of the USPTO who lose their jobs through no fault of their own may receive unemployment compensation benefits under the unemployment insurance program administered by the DOL. The DOL bills each agency quarterly as its claims are paid. As of September 30, 2002 and 2001, the USPTO recorded an $89 thousand and a $53 thousand liability, respectively, for claims paid by the DOL on the USPTO's behalf.

Annual, Sick, and Other Leave

Annual leave and compensatory time are accrued as earned, with the accrual being reduced when leave is taken. An adjustment is made each fiscal year to ensure that the balances in the accrued leave accounts reflect current pay rates. No portion of this liability has been obligated. To the extent current or prior year funding is not available to pay for leave earned but not taken, funding will be obtained from future financing sources. Sick leave and other types of non-vested leave are expensed as used.

Employee Retirement Systems and Benefits

Employees of the USPTO participate in either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). The FERS was established by the enactment of Public Law 99-335. Pursuant to this law, the FERS and Social Security automatically cover most employees hired after December 31, 1983. Employees who had five years of Federal civilian service prior to 1984 and who are rehired after a break in service of more than one year may elect to join the FERS and Social Security system or be placed in the CSRS offset retirement system.

The financial statements of the USPTO do not report CSRS or FERS assets or accumulated plan benefits that may be applicable to its employees. The reporting of such liabilities is the responsibility of the U.S. Office of Personnel Management (OPM). While the USPTO reports no liability for future payments to employees under these programs, the Federal government is liable for future payments to employees through the various agencies administering these programs. The USPTO does not fund post-retirement benefits such as the Federal Employees Health Benefit Program and the Federal Employees Group Life Insurance Program. The USPTO also is not required to fully fund the CSRS pension liabilities. The financial statements of the USPTO recognize an imputed financing source and corresponding expense that represents the USPTO's share of the cost to the Federal government of providing pension, post-retirement health, and life insurance benefits to all eligible USPTO employees.

For the fiscal years ended September 30, 2002 and 2001, the USPTO made contributions equivalent to approximately 8.5 percent and 10.7 percent of the employee's basic pay for those employees covered by CSRS and FERS, respectively, based on OPM cost factors.

All employees are eligible to contribute to a thrift savings plan. For those employees participating in the FERS, a thrift savings plan is automatically established, and the USPTO makes a mandatory one percent contribution to this plan. In addition, the USPTO makes matching contributions ranging from one to four percent for FERS-eligible employees who contribute to their thrift savings plans. No matching contributions are made to the thrift savings plans for employees participating in the CSRS. Employees participating in the FERS are also covered under the Federal Insurance Contributions Act (FICA), for which the USPTO contributes a matching amount to the Social Security Administration.

For the fiscal years ended September 30, 2002 and 2001, the USPTO's retirement plan contributions for CSRS and FERS participants were $47,664 thousand and $40,638 thousand, respectively. The USPTO also contributed to the Social Security Administration for FICA benefits $30,788 thousand and $25,922 thousand for the years ended September 30, 2002 and 2001, respectively.

Deferred Revenue

Deferred revenue represents fees that have been received by the USPTO for requested services that have not been substantially completed. Two types of deferred revenue are recorded. The first type results from checks received, with requests for services, which were not yet deposited due to the lag time between receipt and initial review. The second type of deferred revenue relates primarily to fees for applications that have been partially processed.

The deferred revenue calculation continues to improve with experience and as more information is acquired about the Patent and Trademark processes. The deferred revenue calculation is a complex accounting estimate, which requires a detailed and comprehensive understanding of numerous business and administrative processes, as well as an in-depth knowledge of workloads and inventories. The calculation includes the portion of costs associated with various stages of the application process.

Environmental Cleanup

USPTO does not have any liabilities for environmental cleanup.

NOTE 2. FUND BALANCE WITH TREASURY

Non-entity funds consist of amounts held on deposit for the convenience of USPTO customers and held on behalf of the WIPO and the European Property Organization. Customers have the option of maintaining a deposit account at the USPTO to facilitate the order process. Customers can draw from their deposit account when they place an order and can replenish their deposit account as desired. Funds maintained in customer deposit accounts are not available for USPTO use until an order has been placed. Once an order has been placed, the funds are reclassified to entity funds. In addition, the USPTO collects international fees on behalf of WIPO and the EPO and remits these fees monthly.

As of September 30, 2002 and 2001, Fund Balance with Treasury consisted of the following:

(Dollars in Thousands)	2002			2001
	Unrestricted Funds	Restricted Funds	Total	Total
Appropriated Funds (Obligated)	$ 288,341	$ —	$ 288,341	$ 309,610
Appropriated Funds (Unobligated)	334,923	—	334,923	316,083
Revenue Withheld	—	233,529	233,529	233,529
Subtotal Entity Funds	623,264	233,529	856,793	859,222
Intragovernmental Deposit Accounts	—	3,749	3,749	3,504
Other Customer Deposit Accounts	—	61,002	61,002	53,955
PCT WIPO/EPO Accounts	—	4,586	4,586	6,680
Subtotal Non-Entity Funds	—	69,337	69,337	64,139
Total Fund Balance with Treasury	$ 623,264	$ 302,866	$ 926,130	$ 923,361

No discrepancies exist between the fund balance reflected in the general ledger and the balance in the Treasury accounts.

NOTE 3. PROPERTY AND EQUIPMENT

As of September 30, 2002, property and equipment consisted of the following:

(Dollars in Thousands)

Class of Fixed Asset	Depreciation/ Amortization Method	Service Life (Years)	Acquisition Value	Accumulated Depreciation/ Amortization	Net Book Value
IT Equipment	SL	3-7	$ 211,247	$ 157,861	$ 53,386
Software	SL	3-7	123,145	82,555	40,590
Software in Progress	—	—	19,552	—	19,552
Furniture	SL	5	14,473	10,413	4,060
Equipment	SL	3-5	10,136	8,540	1,596
Total Fixed Assets			$ 378,553	$ 259,369	$ 119,184

As of September 30, 2001, property and equipment consisted of the following:

(Dollars in Thousands)

Class of Fixed Asset	Depreciation/ Amortization Method	Service Life (Years)	Acquisition Value	Accumulated Depreciation/ Amortization	Net Book Value
IT Equipment	SL	3-7	$ 192,345	$ 138,983	$ 53,362
Software	SL	3-7	108,296	59,000	49,296
Software in Progress	—	—	18,717	—	18,717
Furniture	SL	5	15,967	10,171	5,796
Equipment	SL	3-5	9,087	7,660	1,427
Total Fixed Assets			$ 344,412	$ 215,814	$ 128,598

NOTE 4. LIABILITIES

The USPTO records liabilities for amounts that are likely to be paid as the direct result of events that have already occurred. The USPTO considers liabilities covered by three types of resources: realized budgetary resources; unrealized budgetary resources that become available without further Congressional action; and cash and Fund Balance with Treasury. Realized budgetary resources include obligated balances funding existing liabilities and unobligated balances as of September 30, 2002. Unrealized budgetary resources represent fee collections in excess of amounts appropriated for current fiscal year spending. When current fiscal year appropriation language makes these unrealized budgetary resources available on October 1 of the following fiscal year without further Congressional action, these resources are used to cover liabilities. In FY 2002 and FY 2001 collections in excess of amounts appropriated for current fiscal year spending were $306,513 thousand and $305,056 thousand, respectively. However, only the FY 2001 excess collections, which became available the following fiscal year, are displayed as covering liabilities as of the Balance Sheet date. In addition, cash and Fund balance with Treasury cover liabilities that will never require the use of a budgetary resource. These liabilities consist of deposit accounts, refunds payable to customers for fee overpayments, undeposited collections and amounts collected by the USPTO on behalf of other organizations.

Due to the USPTO's funding structure, budgetary resources do not cover a portion of unearned fees. The USPTO's fees that were withheld and deposited into a restricted special fund receipt account are not considered a resource until appropriated and made available by the issuance of a Treasury warrant, although the USPTO incurred costs to generate these fees. Therefore, budgetary resources from current operations that normally would be used to cover a portion of unearned fees have been used to cover prior year costs associated with restricted fees. In addition, the current patent fee structure sets low initial application fees that are followed by income from maintenance fees as a supplement in later years to cover the full cost of the patent examination and issuance process. The combination of these funding circumstances requires the USPTO to obtain additional budgetary resources to cover its liability for unearned revenue.

As of September 30, 2002 and 2001, liabilities covered and not covered by budgetary resources were as follows:

(Dollars in Thousands)	**2002**	**2001**
Liabilities Covered by Resources		
Intragovernmental:		
Accounts Payable	$ 3,721	$ 3,496
Accrued Payroll and Benefits	2,446	5,293
Accrued Postemployment Compensation	—	—
Customer Deposit Accounts	3,749	3,504
Total Intragovernmental	$ 9,916	$ 12,293
Accounts Payable	71,261	57,497
Accrued Payroll and Benefits	15,526	38,485
Customer Deposit Accounts	61,002	53,955
Deferred Revenue	9,045	10,720
Patent Cooperation Treaty Account	4,586	6,680
Capital Lease Liability	—	—
Total Liabilities Covered by Resources	$ 171,336	$ 179,630
Liabilities Not Covered by Resources		
Intragovernmental:		
Accrued Postemployment Compensation	$ 1,180	$ 970
Total Intragovernmental	$ 1,180	$ 970
Accrued Payroll and Benefits	15,609	6,576
Accrued Leave	34,461	30,414
Deferred Revenue	456,929	364,268
Actuarial Liability	5,332	5,526
Capital Lease Liability	—	3,032
Contingent Liabilities	—	3,590
Total Liabilities Not Covered by Resources	$ 513,511	$ 414,376
Total Liabilities	$ 684,847	$ 594,006

NOTE 5. DEFERRED REVENUE

As of September 30, 2002, deferred revenue consisted of the following:

(Dollars in Thousands)	Patents	Trademarks	Total
Unearned Fees	$ 413,070	$ 43,859	$ 458,888
Undeposited Checks	7,465	1,580	9,045
Total Deferred Revenue	$ 420,535	$ 45,439	$ 467,933

As of September 30, 2001, deferred revenue consisted of the following:

(Dollars in Thousands)	Patents	Trademarks	Total
Unearned Fees	$ 325,831	$ 38,437	$ 364,268
Undeposited Checks	8,897	1,823	10,720
Total Deferred Revenue	$ 334,728	$ 40,260	$ 374,988

NOTE 6. ACTUARIAL LIABILITY

The FECA provides income and medical cost protection to covered Federal civilian employees injured on the job and for those who have contracted a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Claims incurred for benefits under the FECA for the USPTO's employees are administered by the DOL and are ultimately paid by the USPTO.

The DOL estimated the future workers compensation liability by applying actuarial procedures developed to estimate the liability for FECA benefits. The actuarial liability estimates for FECA benefits include the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred but not reported claims.

The DOL method of determining liability uses historical benefit payment patterns for a specific incurred period to predict the ultimate payments for that period. Consistent with past practice, these projected annual benefit payments have been discounted to present value using the OMB's economic assumptions for ten-year Treasury notes and bonds. Interest rate assumptions utilized for discounting were as follows:

2002	2001
5.20% in year 1, 5.20% in year 2, and thereafter	5.21% in year 1, 5.21% in year 2, and thereafter

Based on information provided by DOL, DOC determined the estimated liability of the USPTO as of September 30, 2002 and 2001 was $5,332 thousand and $5,526 thousand, respectively.

NOTE 7. LEASES

Capital Lease:

The USPTO capital lease was entered into during FY 2000 and consisted of automatic data processing equipment with a lease term longer than one year, a fair market value of $25,000 or more, a useful life of two years or more, and agreement terms equivalent to an installment purchase. The capital lease term was completed in FY 2002.

Operating Leases:

The GSA negotiates long-term office space leases and levies rent charges, paid by the USPTO, approximate to commercial rental rates. These operating lease agreements negotiated by the GSA for the USPTO's office buildings expire at various dates between FY 2003 and FY 2023. During fiscal years 2002 and 2001, the USPTO paid $67,693 thousand and $62,943 thousand, respectively, to GSA for rent.

Under existing commitments as of September 30, 2002, the minimum lease payments through FY 2007, and thereafter, are as follows:

Fiscal Year (Dollar Thousands)	
2003	$ 63,564
2004	115,554
2005	78,109
2006	64,390
2007	59,810
Thereafter	884,487
Total Future Minimum Lease Payments	$ 1,265,914

The existing commitments include the new operating lease for the Carlyle campus beginning in FY 2004 and extending to FY 2023.

NOTE 8. IMPUTED FINANCING

The USPTO recognizes an imputed financing source and corresponding expense to represent its share of the cost to the Federal Government of providing pension and post-retirement health and life insurance benefits (Pension/ORB) to all eligible USPTO employees. During FY 2002, the USPTO also recognized an imputed financing source and corresponding expense for a payment made on its behalf from the Judgment Fund.

As of September 30, 2002 and 2001, the components of the imputed financing sources and corresponding expenses were as follows:

(Dollars in Thousands)	2002	2001
CSRS/FERS	$ 8,946	$ 8,208
FEHB	21,569	17,137
FEGLI	76	66
Total Pension/ORB	$ 30,591	$ 25,411
Judgement Fund	212	—
Total Imputed Financing	$ 30,803	$ 25,411

NOTE 9. PROGRAM COSTS

Program costs are accumulated by USPTO strategic goal and consist of both costs related directly to the individual business lines and overall support costs allocated to the business lines. There were no costs that could not be assigned to specific programs. Total program or operating costs for the years ended September 30, 2002 and 2001 by cost category were as follows:

(Dollars in Thousands)	2002			2001
	Direct	Allocated	Total	Total
Personnel Services and Benefits	$ 587,659	$ 42,602	$ 630,261	$ 543,147
Unfunded Personnel Services and Benefits	32,545	2,827	35,372	32,956
Travel and Transportation	1,292	4,158	5,450	4,710
Rent, Communications, and Utilities	72,961	14,334	87,295	76,982
Printing and Reproduction	67,493	1,462	68,955	56,813
Contractual Services	143,418	76,656	220,074	188,307
Training	6,929	164	7,093	6,435
Maintenance and Repairs	7,262	9,127	16,389	15,733
Supplies and Materials	7,977	1,489	9,466	9,518
Equipment not Capitalized	6,159	3,144	9,303	12,853
Insurance Claims and Indemnities	(302)	1,988	1,686	3,690
Imputed Interest	—	—	—	163
Depreciation, Amortization, or Loss on Asset Disposition	45,897	23,754	69,651	65,320
Total Program Costs	$ 979,290	$ 181,705	$ 1,160,995	$ 1,016,627

NOTE 10. PROGRAM COSTS BY CATEGORY AND RESPONSIBILITY SEGMENT

The program costs for the years ended September 30, 2002 and September 30, 2001 by cost category and business line were as follows:

(Dollars in Thousands)	2002			2001
	Patents	Trademarks	Total	Total
Direct Costs				
Personnel Services and Benefits	$ 516,431	$ 71,228	$ 587,659	$ 501,930
Unfunded Personnel Services and Benefits	29,399	3,146	32,545	30,338
Travel and Transportation	1,091	201	1,292	1,428
Rent, Communications, and Utilities	63,689	9,272	72,961	63,417
Printing and Reproduction	65,306	2,187	67,493	55,480
Contractual Services	124,995	18,423	143,418	117,166
Training	6,010	919	6,929	4,317
Maintenance and Repairs	6,210	1,052	7,262	7,655
Supplies and Materials	7,450	527	7,977	8,347
Equipment not Capitalized	5,126	1,033	6,159	8,953
Insurance Claims and Indemnities	(312)	10	(302)	3,689
Imputed Interest	—	—	—	110
Depreciation, Amortization, or Loss on Asset Disposition	41,888	4,009	45,897	43,524
Subtotal Direct Costs	867,283	112,007	979,290	846,354
Allocated Costs				
Automation	78,239	13,305	91,544	79,382
Resource Management	76,769	13,392	90,161	90,891
Subtotal Allocated Costs	155,008	26,697	181,705	170,273
Total Program Costs	$ 1,022,291	$ 138,704	$ 1,160,995	$ 1,016,627

NOTE 11. FUTURE FUNDING REQUIREMENTS

For the periods ended September 30, 2002 and 2001, future funding requirements were as follows:

(Dollars in Thousands)	
Liabilities not Covered by Budgetary Resources as of 9/30/2001	$ 414,376
Unobligated Balance Used to Cover Unfunded Liabilities	11,029
Unfunded Liabilities as of 9/30/2001	$ 425,405
Liabilities not Covered by Budgetary Resources as of 9/30/2002	$ 513,511
Unobligated Balance Used to Cover Unfunded Liabilities	2,661
Unfunded Liabilities as of 9/30/2002	$ 516,172
Increase in Unfunded Liabilities	$ 90,767
Costs that will be Funded by Resources in Future Periods	$ 4,309
Resources that Fund Costs Recognized in Prior Periods	(6,204)
Budgetary Offsetting Collections that do not Affect Net Cost Of Operations	339,773
Revenue that was a Budgetary Offsetting Collection in a Prior Period	(247,111)
Increase in Future Funding Requirements	$ 90,767

NOTE 12. COMMITMENTS AND CONTINGENCIES

Commitments

In addition to the future lease commitments discussed in Note 7, the USPTO is obligated for the purchase of goods and services that have been ordered but not yet received. Total undelivered orders for all of the USPTO's activities were $234,794 thousand and $224,535 thousand as of September 30, 2002 and 2001, respectively. Of these amounts $198,370 thousand and $218,207 thousand, respectively, were unpaid.

Contingencies

The USPTO is a party to various routine administrative proceedings, legal actions, and claims brought by or against it, including threatened or pending litigation involving labor relations claims, some of which may ultimately result in settlements or decisions against the Federal government. As of September 30, 2002, management expects that it is reasonably possible that approximately $87,000 thousand may be owed for awards or damages involving labor relations claims and there are other unasserted claims where a range cannot be determined. As of September 30, 2001, management expected that it was reasonably possible that from $228 thousand to $668 thousand would be owed for awards or damages involving labor relations claims. During FY 2002, there was a $212 thousand payment from the Judgment Fund on behalf of the USPTO. Although the ultimate disposition of any potential Judgment Fund proceedings cannot be determined, management does not expect any liability or imputed costs that might ensue would be material to the USPTO's financial statements.

Required Supplemental Information

U.S. PATENT AND TRADEMARK OFFICE
REQUIRED SUPPLEMENTAL INFORMATION

As of September 30, 2002 and 2001

Intragovernmental Assets:
(Dollars in Thousands)

	Trading Partner	2002 Fund Balance with Treasury	2002 Accounts Receivable, Net	2002 Advances and Prepayments	2002 Total	2001 Total
04	U.S. Government Printing Office	$ —	$ —	$ 3,731	$ 3,731	$ 3,770
13	Department of Commerce	—	—	700	700	2,290
20	Department of Treasury	926,130	—	—	926,130	923,361
47	General Services Administration	—	99	30,413	30,512	—
97	Department of Defense	—	—	—	—	10
	Total	$ 926,130	$ 99	$ 34,844	$ 961,073	$ 929,431

Intragovernmental Liabilities:
(Dollars in Thousands)

	Trading Partner	2002 Accounts Payable	2002 Accrued Payroll and Benefits	2002 Accrued Post-employment Compensation	2002 Customer Deposit Accounts	2002 Total	2001 Total
03	Library of Congress	$ 314	$ —	$ —	$ —	$ 314	$ 8
04	U.S. Government Printing Offfice	1,461	—	—	—	1,461	949
11	Executive Office of the President	—	—	—	—	—	378
12	Department of Agriculture	10	—	—	183	193	96
13	Department of Commerce	372	—	—	82	454	496
14	Department of Interior	—	—	—	13	13	36
15	Department of Justice	—	—	—	12	12	5
16	Department of Labor	52	—	1,180	—	1,232	970
17	Department of the Navy	—	—	—	1,190	1,190	837
18	United States Postal Service	—	—	—	5	5	4
19	Department of State	33	—	—	—	33	75
20	Department of Treasury	4	697	—	—	701	1,655
21	Department of the Army	—	—	—	700	700	1,093
24	Office of Personnel Management	208	1,749	—	—	1,957	3,828
47	General Services Administration	1,155	—	—	—	1,155	711
57	Department of the Air Force	—	—	—	90	90	91
68	Environmental Protection Agency	71	—	—	32	103	1
69	Department of Transportation	—	—	—	1	1	3
75	Health and Human Services	41	—	—	35	76	263
80	National Aeronautics and Space Admin.	—	—	—	371	371	487
88	National Archives and Records Admin.	—	—	—	—	—	503
89	Department of Energy	—	—	—	936	936	698
96	U.S. Army Corps of Engineers	—	—	—	68	68	66
97	Department of Defense	—	—	—	31	31	10
	Total	$ 3,721	$ 2,446	$ 1,180	$ 3,749	$ 11,096	$ 13,263

REQUIRED SUPPLEMENTAL INFORMATION

Intragovernmental Earned Revenue:
(Dollars in Thousands)

Trading Partner		2002	2001
03	Library of Congress	$ 1	$ 1
04	Government Printing Office	1	—
11	Executive Office of the President	—	1
12	Department of Agriculture	218	298
13	Department of Commerce	67	80
14	Department of Interior	43	34
15	Department of Justice	5	9
17	Department of the Navy	1,340	1,179
18	United States Postal Service	77	65
20	Department of State	1	—
21	Department of the Army	751	757
33	Smithsonian Institution	—	1
47	General Services Administration	239	—
57	Department of the Air Force	332	345
64	Tennessee Valley Authority	—	12
68	Environmental Protection Agency	159	168
69	Department of Transportation	162	5
75	Department of Health and Human Services	4	8
80	National Aeronautics and Space Administration	604	520
89	Department of Energy	1,389	1,225
96	U.S. Army Corps of Engineers	48	44
97	Department of Defense	55	31
	Total	$ 5,496	$ 4,783

Gross Costs that Generated Intragovernmental Earned Revenue:
(Dollars in Thousands)

Budget Functional Classification		2002	2001
376	Commerce Housing Credit	$ 6,269	$ 4,703
	Total	$ 6,269	$ 4,703

Intragovernmental Non-exchange Revenue:
(Dollars in Thousands)

Trading Partner		2002	2001
20	Department of the Treasury	$ 212	$ -
24	Office of Personnel Management	$ 30,591	$ 25,411
	Total	$ 30,803	$ 25,411

The USPTO has not deferred to a future period maintenance on the property and equipment presented on the Balance Sheet as of September 30, 2002 and 2001.

Independent Auditor's Report

UNITED STATES DEPARTMENT OF COMMERCE
The Inspector General
Washington, D.C. 20230

January 9, 2003

MEMORANDUM FOR: James E. Rogan
Under Secretary of Commerce for Intellectual Property and
Director of the U.S. Patent and Trademark Office

FROM: Johnnie E. Frazier

SUBJECT: *USPTO's FY 2002 Financial Statements*
Audit Report No. FSD-15213-3-0002

I am pleased to provide you with the attached audit report, which presents an unqualified opinion on the U.S. Patent and Trademark Office's FY 2002 financial statements. We commend the bureau for this noteworthy accomplishment. Also provided are reports on USPTO's internal control structure and compliance with laws and regulations. The independent certified public accounting firm of Ernst & Young LLP (E&Y) performed the FY 2002 audit. My office defined the audit's scope and oversaw its performance and delivery.

In the opinion of E&Y, the USPTO's financial statements are presented fairly, in all material respects and in conformity with generally accepted accounting principles, as of and for the year ended September 30, 2002. The results of the audit also indicate that the USPTO's internal control structure facilitates preparation of reliable financial and performance information. E&Y's *Report on Internal Control* contains no reportable conditions, and the *Report on Compliance with Laws and Regulations* identifies no instances of noncompliance.

If you wish to discuss the contents of this report, please call me on (202) 482-4661, or Michael Sears, Assistant Inspector General for Auditing, on (202) 482-1934. We appreciate the cooperation and courtesies USPTO extended to E&Y and my staff during the audit.

Attachments

cc: Otto J. Wolff
Chief Financial Officer and Assistant Secretary for Administration
Department of Commerce

Sandra L. Weisman
Acting Chief Financial Officer and Acting Chief Administrative Officer
U.S. Patent and Trademark Office

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Report of Independent Auditors

To the Office of Inspector General,
Department of Commerce, and
Under Secretary of Commerce for Intellectual Property and Director of the United States Patent and Trademark Office

We have audited the consolidated balance sheets of the U.S. Patent and Trademark Office (USPTO), an Agency of the United States within the Department of Commerce as of September 30, 2002 and 2001, and the related consolidating statements of net cost, and the consolidated statements of changes in net position, financing, and cash flows and combined statements of budgetary resources for the fiscal years then ended. These financial statements are the responsibility of the USPTO's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits for the years ended September 30, 2002 and 2001 in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and, Office of Management and Budget (OMB) Bulletin 01-02, *Audit Requirements for Federal Financial Statements*. These standards and requirements require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the USPTO as of September 30, 2002 and 2001, and its net costs, changes in net position, budgetary resources, reconciliation of net costs to budgetary obligations, and cash flows for the fiscal years then ended, in conformity with accounting principles generally accepted in the United States.

Our audits were conducted for the purpose of expressing an opinion on the financial statements referred to in the first paragraph. The information in the Management's Discussion and Analysis (MD&A) and the Supplemental Information is not a required part of the USPTO's financial statements, but is considered supplementary information required by OMB Bulletin 01-09, *Form and Content of Agency Financial Statements*.

Such information has not been subjected to the auditing procedures applied in the audits of the financial statements, and accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our reports as of and for the year ended September 30, 2002, dated December 13, 2002, on our consideration of the USPTO's internal control over financial reporting and on our tests of its compliance with certain provisions of laws and regulations. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Ernst + Young LLP

December 13, 2002

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Report of Independent Auditors on Internal Control

To the Office of Inspector General,
Department of Commerce, and
Under Secretary of Commerce for Intellectual Property and Director of the United States Patent and Trademark Office

We have audited the financial statements of the U.S. Patent and Trademark Office (USPTO), an Agency of the United States within the Department of Commerce, as of and for the year ended September 30, 2002, and have issued our report thereon dated December 13, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and, Office of Management and Budget (OMB) Bulletin 01-02, *Audit Requirements for Federal Financial Statements*.

In planning and performing our audit, we considered the USPTO's internal control over financial reporting by obtaining an understanding of the USPTO's internal control, determined whether internal control had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin 01-02. We did not test all internal control relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act, such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal control. Consequently, we do not provide an opinion on internal control.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the USPTO's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal control, misstatements, losses or noncompliance may nevertheless occur and not be detected. However, we noted no matters involving the internal control and its operation that we considered to be material weaknesses as defined above.

In addition, with respect to internal control related to performance measures reported in the Management's Discussion and Analysis (MD&A), we obtained an understanding of the design of internal control relating to the existence and completeness assertions and determined whether they have been placed in operation, as required by OMB Bulletin 01-02. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on such controls.

A separate letter, dated December 13, 2002, was provided to management that further discusses certain matters involving internal control that came to our attention as a result of our audit. We have also separately reported certain matters involving internal control and its operation in relation to our electronic data processing review. It is our understanding that these matters are being transmitted under separate cover.

This letter is intended solely for the information and use of the Department of Commerce Office of Inspector General, management of the USPTO, OMB and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Ernst & Young LLP

December 13, 2002

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Report of Independent Auditors on Compliance with Laws and Regulations

To the Office of Inspector General,
Department of Commerce, and
Under Secretary of Commerce for Intellectual Property and Director of the United States Patent and Trademark Office

We have audited the financial statements of the U.S. Patent and Trademark Office (USPTO), an Agency of the United States within the Department of Commerce, as of and for the year ended September 30, 2002, and have issued our report thereon dated December 13, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and, Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

The management of the USPTO is responsible for complying with laws and regulations applicable to the USPTO. As part of obtaining reasonable assurance about whether the USPTO's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in OMB Bulletin 01-02, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to the USPTO. We caution that noncompliance may occur and not be detected by the tests performed and that such testing may not be sufficient for other purposes.

The results of our tests disclosed no instances of noncompliance with the laws and regulations discussed in the preceding paragraph exclusive of FFMIA that are required to be reported under *Government Auditing Standards* or OMB Bulletin 01-02.

Under FFMIA, we are required to report whether the USPTO's financial management systems substantially comply with the Federal financial management systems requirements, applicable Federal accounting standards, and the United States Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA section 803(a) requirements.

The results of our tests disclosed no instances in which the USPTO's financial management systems did not substantially comply with the three requirements discussed in the preceding paragraph.

Ernst & Young LLP is a member of Ernst & Young International, Ltd.

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

This report is intended solely for the information and use of the Department of Commerce Office of Inspector General, management of the USPTO, OMB and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Ernst & Young LLP

December 13, 2002

Management and Performance Challenges Identified by the Inspector General

INSPECTOR GENERAL'S STATEMENT SUMMARIZING THE MAJOR MANAGEMENT AND PERFORMANCE CHALLENGE FACING THE UNITED STATES PATENT AND TRADEMARK OFFICE

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We herewith submit, for inclusion in the U.S. Patent and Trademark Office's (USPTO) Accountability Report, a summary of the issues that we have determined make up the USPTO's most crucial management and performance challenge.

The Office of Inspector General considers the issues noted to be significant impediments to USPTO's efforts to promote economy, efficiency, and effectiveness in its management and operations because they are vital to USPTO's mission, they are complex, they involve sizable expenditures, or they require significant management improvements. We believe that by addressing these issues USPTO can enhance program efficiency and effectiveness; prevent or eliminate serious operational problems; decrease fraud, waste, and abuse; and achieve substantial savings.

Successfully Operate as a Performance–Based Organization

The American Inventors Protection Act of 1999 established the U.S. Patent and Trademark Office as a performance-based organization, giving it greater flexibility and independence to operate more like a business. As such, USPTO has not only broader responsibility for managing its operations but also expanded control over its budget allocations and expenditures, personnel decisions and processes, and procurement operations.

Despite the act's potential benefits, USPTO's continuing transformation remains a formidable challenge as the agency strives to keep pace with increasingly complex technology and customer demands for higher quality products and services. In June 2002 the bureau responded to the concerns of its many stakeholders by issuing the *21st Century Strategic Plan*, which it believes will help guide the way to meeting the many challenges that have accompanied its transition to performance-based operations. The bureau must continue to develop the necessary personnel, procurement, and administrative policies, as well as performance-oriented processes and standards for evaluating cost-effectiveness, while meeting its performance goals under the Government Performance and Results Act (GPRA) and the timeliness standards of the American Inventors Protection Act.

The 5-year strategic plan, according to USPTO, is aggressive and far-reaching, and provides a road map for major changes in patent and trademark processes. It is intended to (1) reduce patent pendency from the current 25 months to 18 months by 2008, (2) move to a paperless environment and promote e-government, (3) enhance employee development, (4) explore competitive sourc-ing, and (5) improve and maintain quality control. USPTO's strategic plan also calls for the agency to work with worldwide intellectual property offices to create a global framework for enforcing intellectual property rights.

Agency management believes that failure to implement the new plan will delay USPTO's full implementation of e-government initiatives and increase pendency rates. It should be noted, however, that several of the initiatives envisioned in the plan-outsourcing preexamination reviews and changing fee structures, for example, require congressional approval.

During the next 2 years, we will review some of the operational changes the plan proposes. We view completion of this transition as critical to USPTO's operating success and its ability to address other challenges we identified in recent years, as described below.

Staffing to Handle Changes in Patent and Trademark Application Activity

The number of patent application filings skyrocketed in recent years. In FY 2001 USPTO received more than 326,081 applications for patents-an 8.9 percent increase over the number received in FY 2000. To address the expanding workload, USPTO hired 789 patent examiners, but lost 700 through attrition during fiscal years 2000 and 2001, virtually negating its efforts to increase staffing. Trademark filings, on the other hand, peaked in 2000 at 375,000 applications, but declined by 21 percent (to 296,000) in FY 200I. Because this downward trend is expected to continue, the bureau has started to downsize its trademark staff.

Our prior audits of USPTO reported on some of the challenges facing the bureau in recruiting and training examiners and in hiring additional administrative judges to hear appeals. As a performance-based organization, USPTO has greater flexibility to design incentives to attract and retain these highly skilled employees.

Construction of New Facility

USPTO and GSA are currently undertaking one of the federal government's largest real estate ventures -- construction of USPTO's 2.4 million square-foot office complex in Alexandria, Virginia. When completed in 2005, the 5-building complex will provide space for USPTO employees and operations currently scattered among 18 buildings in nearby Crystal City, Virginia. Now that construction has begun, USPTO must aggressively hold the line on project costs, monitor construction progress, and help ensure the project stays on schedule and within the legislatively mandated cap on the cost of completing the build-out of the facility's shell. We will be monitoring this major challenge and will follow up on issues we identified during the project's planning and design, such as space planning and allocation, relocation strategies, and actual versus target costs and completion schedules.

Emergency Preparedness, Safety, and Security of Facilities and Personnel

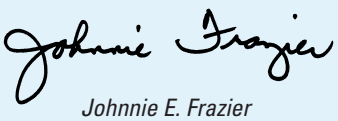
With the heightened threat of terrorism against U.S. interests, the need to strengthen security and emergency preparedness in both the public and private sectors has taken on new urgency. Homeland Security Presidential Directive-3 established a Homeland Security Advisory System for the nation and requires executive branch agencies to implement protective physical security measures to reduce vulnerability or increase response capability during periods of heightened alert. Like most federal agencies, USPTO must directly address this issue now and take the steps to address it in its new five-building complex in Alexandria, Virginia.

IT Capabilities

USPTO continues to face significant challenges in delivering essential information technology capabilities. The American Inventors Protection Act of 1999 requires greater operational efficiency from the bureau, further intensifying the demands placed on IT solutions and USPTO's ability to develop new and upgrade existing systems. Our March 2002 evaluation of USPTO's information security program found that in general, the bureau's documented policies and procedures are consistent with accepted security practices, but many important security requirements are not implemented, and fundamental responsibilities are frequently not carried out. USPTO concurred with our findings and has begin implementing our recommendations. While the results of our evaluation suggest that information security has yet to become an integral part of USPTO's business operations, the bureau's response to our recommendations indicates genuine concern about the security of its IT systems and a commitment to a stronger security program.

Acquisition Processes

As a performance-based organization, USPTO is responsible for completely managing its procurement operations and, as such, has greater flexibility in how it acquires its goods and services. But with this increased flexibility comes increased responsibility to ensure careful monitoring of its procurement and operations to ensure maximum efficiency.



Johnnie E. Frazier
Inspector General

December 20, 2002

Other Accompanying Information

THE NATURE OF THE TRAINING PROVIDED TO USPTO EXAMINERS

Achieving organizational excellence demands a high performing workforce that delivers high quality work products and provides customer service excellence. Training is a critical component in achieving consistently high quality products and services.

Patent examiners and Trademark examining attorneys received extensive legal, technical and automation training in FY 2002. The USPTO has a comprehensive training program for new patent examiners and trademark examining attorneys, which has a well-established curriculum including initial legal training and training in examination practice and procedure. Automation training is provided to all examiners on an as-needed just-in-time basis. Technology-specific legal and technical training was conducted throughout the examining operations. This specific training either focused on practices particular to the technology or was developed to address training needs identified through Trademark training.

The USPTO training staff works one-on-one with the Patent and Trademark business organizations to address specific training concerns and serve as consultants to design specific internal programs to fit the education needs of each business unit. Training is reviewed and evaluated on an ongoing basis to insure that it is up-to-date and that coursework reflects developments and changes that have taken place in the industry.

In FY 2002, the Trademark organization searched the options for development of training using the medium of the Internet for web-based training. The Trademark organization found a vendor that offers a website base and a Learning Management Resource (LMR) package on which to build courses and administer the training. Trademarks purchased a pilot-program to test the website system. The pilot course "Varietal and Cultivar Names Refusals" was published to 100 volunteer Trademark attorneys and received excellent reviews. On the basis of the successful pilot, Trademarks leased the website system for one-year. Additional courses will be designed and published on-line in FY 2003.

PATENT EXAMINER TRAINING

Procedural Training – Mandatory for all first year examiners	Patent Examiner Initial Training (PEIT) and Introduction to Practice and Procedures (IPP) Standardized training is being provided to new patent examiners to teach them the basic skills and knowledge of the patent process, practices and procedures such that they will be able to successfully examine a patent application. The examiner will also be able to provide an initial report to their supervisor on what is the claimed, as well as, the disclosed invention contained in the application so as to permit him/her to perform a prior art search. The number of courses offered each year is based on the projected number of new examiners entering the patent business unit.
Legal Training – Mandatory for all first year examiners	Practice and Procedures Lectures covering the following topics: ■ Types of application and application requirements ■ "Novelty" requirements ■ "Non-Obviousness" requirements ■ "Utility" requirements ■ Restriction practice ■ Unity of invention ■ Double patenting ■ Allowance and issue ■ Appeals
Legal Training – Technology Center Focused	■ "Novelty" requirements ■ Docket Management ■ Part of Application ■ USPTO Forms ■ After Final Practice ■ "Non-Obviousness" requirements ■ "Utility" requirements ■ Prior Art (special topics) ■ Restriction Practice ■ Response to Arguments ■ Double Patenting ■ Reexam/Reissue
Legal Training – Legal Lectures	Various topics offered each year
Legal Training – Legal Courses	■ Patent Law ■ Evidence

PATENT EXAMINER TRAINING *Continued*

Examiner Technical Training – Technology Center Focused	■ Biotechnology ■ Chemical Engineering ■ Mechanical Engineering ■ Computer Software and Hardware ■ Optics, Semiconductor, Electrical Engineering ■ Communication Technology
Examiner Technical Training – In-house Technical Lectures	Examples: ■ TCP/IP ■ 3G Wireless Mobile Communication ■ RF/Wireless Engineering ■ DVD Technology ■ Disk Drive operations ■ Memory Technolgies ■ Communications Basics ■ 3rd Generation Cellular ■ Display System ■ Flat Panel Display Lecture ■ Optical Technology ■ Computer Architecture
Automation Training	Examples: ■ Introduction to Computer Skills ■ Keyboarding Skills ■ Windows™ NT Overview ■ Windows™ NT Hands On ■ Computer Housekeeping ■ Microsoft® Outlook ■ Microsoft® Excel ■ Microsoft® Word I, II, III, IV ■ Office Action Correspondence Subsystem ■ US Classes, International Patent Classification Codes and the Concordance Online ■ Search Strategy Development Overview ■ Automated Searching for Design Examiners ■ Automated Searching for Shoe Searcher ■ Chemical Searching for Non-Chemists ■ Introduction to Sequence Searching ■ Examiner's Automated Search Tool (EAST) - Search Strategy for Chemical, Mechanical, Electrical, and Biotechnology Arts ■ Web-Based Examiner Search Tool (WEST) - Search Strategy for Chemical, Mechanical, Electrical, and Biotechnology Arts ■ Search Strategy for the Biotechnology Arts ■ WEST for EAST Searchers/ EAST for WEST Searchers ■ Understanding and Locating Foreign Patents ■ Commercial Databases and Web Resources

TRADEMARK EXAMINING ATTORNEY TRAINING

Trademark Organization Training and Learning (TOTAL) **Legal Training –** Mandatory for all first year trademark examining attorneys.	This course provides new Trademark attorneys with basic knowledge of the Federal Trademark Act, examination procedures and automated search tools. Practice and Procedures Lectures and Activities cover the following topics: ■ Trademark Law Overview ■ Refusals under Section 2(d) of Trademark Act (Likelihood of Confusion) ■ Refusals under Section 2(e)(1) of Trademark Act (Mere Descriptiveness/Deceptively Misdescriptive) ■ Trademark Manual of Examining Procedure ■ Refusals under Section 2(e)(2) of Trademark Act (Geographically Descriptive) ■ Refusals under Section 2(e)(3) of Trademark Act (Geographically Deceptively Misdescriptive) ■ Refusals under Section 2(e)(4) of Trademark Act (Primarily Merely Surname) ■ Intent to Use Procedural Requirements ■ Identification and Classification of Goods and Services Practice ■ Legal Letter Writing ■ Drawings, Specimens and Use-Based Refusals ■ Basis Requirements ■ Options Practice – Section 2(f) of Trademark Act and Supplemental Register ■ Disclaimer Requirements ■ Evidence Practice ■ Refusals under Sections 2(a), (b) and (c) of Trademark Act
Automation Training	■ PTOnet System and Applications ■ X-Search Automated Trademark Search System

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TABLE 1

SUMMARY OF PATENT EXAMINING ACTIVITIES

(As of September 30 of each fiscal year)

PATENT EXAMINING ACTIVITY	1998	1999	2000	2001	2002
Applications filed, total	**256,666**	**278,268**	**311,807**	**344,717**	**353,394**
Utility /1, /2	238,850	259,618	291,653	324,211	331,580
Reissue /2	582	664	805	956	974
Plant /2	658	759	786	914	1,134
Design	16,576	17,227	18,563	18,636	19,706
Provisional Applications Filed /3	**41,622**	**54,727**	**78,963**	**86,123**	**89,537**
First actions					
Design	16,836	18,050	17,856	17,748	19,029
Utility, Plant, and Reissue	192,849	226,642	237,421	241,770	275,055
PCT/Chapter 1	13,430	14,316	16,331	17,972	19,460
Patent application disposals, total	**220,333**	**238,292**	**252,871**	**257,467**	**279,297**
Allowed patent applications, total /3	**158,259**	**171,685**	**182,888**	**183,394**	**189,191**
Design	15,214	16,305	16,688	16,526	17,377
Utility, Plant, and Reissue	143,045	155,380	166,200	166,868	171,814
Abandoned, total	**61,994**	**66,493**	**69,895**	**74,014**	**90,092**
Design	1,892	2,431	1,839	1,448	1,675
Utility, Plant, and Reissue	60,102	64,062	68,056	72,566	88,417
Statutory invention registration disposals, total	**80**	**114**	**88**	**59**	**14**
PCT/Chapter II examinations completed	**12,223**	**12,886**	**15,471**	**18,859**	**16,456**
Patents issued /4	**154,579**	**159,166**	**182,223**	**187,822**	**177,317**
Utility	139,298	142,856	164,490	169,576	160,843
Reissue	284	437	561	504	466
Plant	577	393	453	563	912
Design	14,420	15,480	16,719	17,179	15,096
Allowed applications, issue fee not paid /5	6,853	4,000	7,633	6,985	6,928
Pendency time of average patent application /6	23.8	25.0	25.0	24.7	24.0
Reexamination requests	350	385	318	296	272
Reexamination certificates issued	317	243	276	287	200
PCT search reports prepared	12,859	14,116	15,896	16,692	19,646
PCT international applications received by USPTO as receiving office	27,138	30,305	36,671	43,322	42,889
National requirements received by USPTO as designated/elected office	17,305	19,941	23,628	26,821	29,846
International preliminary examination reports	12,003	14,615	15,044	17,740	17,949
Patents renewed under P.L. 102-204 /7	135,462	156,414	206,255	205,117	194,143
Patents expired under P.L. 102-204 /7	41,063	52,289	47,958	49,077	53,724

1/ Utility patents include chemical, electrical and mechanical applications.
2/ Utility, Plant, and Reissue applications revised from 1996 - 2000 to reflect the latest actual counts in PALM.
3/ Allowed Patent Applications are applications awaiting issuance (i.e., publication) as patents.
4/ Excludes withdrawn numbers.
5/ 35 U.S.C. § 151 (includes design applications).
6/ Average time (in months) between filing and issuance or abandonment of utility, plant, and reissue applications. This average does not include design patents.
7/ The provisions of P.L. 102-204 regarding the renewal of patents superceded P.L. 96-517 and P.L. 97-247. FY 1999 column revised from FY 1999 report.

TABLE 2

PATENT APPLICATIONS FILED
(FY 1982 - FY 2002)

Year	Utility /1, /2	Design	Plant /2	Reissue /2	Total
1982	116,052	8,069	193	486	124,800
1983	96,847	8,256	231	370	105,704
1984	109,010	8,446	248	281	117,985
1985	115,893	9,504	244	290	125,931
1986	120,988	9,792	291	332	131,403
1987	125,677	10,766	364	366	137,173
1988	136,253	11,114	377	439	148,183
1989	150,418	11,975	418	495	163,306
1990	162,708	11,140	395	468	174,711
1991	166,765	10,368	414	536	178,083
1992	171,623	12,907	335	581	185,446
1993	173,619	13,546	362	572	188,099
1994	185,087	15,431	430	606	201,554
1995	220,141	15,375	516	647	236,679
1996	189,922	15,160	557	637	206,276
1997	219,486	16,272	680	607	237,045
1998	238,850	16,576	658	582	256,666
1999	259,618	17,227	759	664	278,268
2000	291,653	18,563	786	805	311,807
2001	324,211	18,636	914	956	344,717
2002	**331,580**	**19,706**	**1,134**	**974**	**353,394**

1/ Chemical, electrical, and mechanical applications.
2/ Utility, Plant, and Reissue applications revised from 1996 - 2000 to reflect the latest actual counts in PALM.

TABLE 3

PATENTS PENDING PRIOR TO ALLOWANCE /1

(FY 1982 - FY 2002)

Year	Awaiting action by examiner	Total applications pending /2
1982	87,659	216,509
1983	102,532	223,101
1984	90,687	219,567
1985	90,648	215,512
1986	80,547	207,774
1987	65,010	209,911
1988	75,678	215,280
1989	92,377	222,755
1990	104,179	244,964
1991	104,086	254,507
1992	112,201	269,596
1993	99,904	244,646
1994	107,824	261,249
1995	124,275	298,522
1996	139,943	303,720
1997	112,430	275,295
1998	224,446	379,484
1999	243,207	414,837
2000	308,056	485,129
2001	355,779	542,007
2002	**433,691**	**636,530**

1/ Includes patents pending at end of period indicated, and includes utility, reissue, plant, and design applications. Does not include allowed applications.

2/ Applications under examination, including those in preexamination processing.

TABLE 4

PATENT PENDENCY STATISTICS
(FY 2002)

UTILITY, PLANT & REISSUE (UPR) APPLICATIONS	NUMBER OF APPLICATIONS	AVERAGE PENDENCY *(in months)*
Total	**250,641**	**24.0**
Issued	162,224	25.9
Abandoned	88,417	23.0
Applications In Process	680,649	N/A

UPR PENDENCY STATISTICS BY TECHNOLOGY CENTER *(in months)*	To Issue	Abandoned
Total UPR Pendency	**25.9**	**23.0**
Tech Center 1600 - Biotechnology & Organic Chemistry	27.3	22.4
Tech Center 1700 - Chemical & Materials Engineering	25.9	24.4
Tech Center 2100 - Computer Architecture, Software, & Information Security	37.7	32.1
Tech Center 2600 - Communications	36.1	31.6
Tech Center 2800 - Semiconductor, Electrical, Optical Systems, & Components	23.5	21.3
Tech Center 3600 - Transportation, Construction, Agriculture, & Electronic Commerce	22.7	20.5
Tech Center 3700 - Mechanical Engineering, Manufacturing, Products & Design	22.8	18.6

TOTAL UPR PENDENCY BY TECHNOLOGY CENTER *(in months)*	Average Pendency in Months
Total UPR Pendency	**24.0**
Tech Center 1600 - Biotechnology & Organic Chemistry	25.5
Tech Center 1700 - Chemical & Materials Engineering	25.5
Tech Center 2100 - Computer Architecture, Software, & Information Security	36.3
Tech Center 2600 - Communications	34.9
Tech Center 2800 - Semiconductor, Electrical, Optical Systems, & Components	23.2
Tech Center 3600 - Transportation, Construction, & Agriculture	22.1
Tech Center 3700 - Mechanical Engineering, Manufacturing, Products & Design	21.8

Pendency is calculated based on the most recent filing date.

TABLE 5

SUMMARY OF PENDING PATENT APPLICATIONS

(As of September 30, 2002)

Stage of processing	Utility, plant and reissue applications	Design applications	Total patent applications
Pending patent applications, total	**690,717**	**23,088**	**713,805**
In preexamination processing, total	**81,154**	**3,406**	**84,560**
Under examination, total	**540,067**	**11,903**	**551,970**
Undocketed	64,897	1,282	66,179
Awaiting first action by examiner	275,194	7,758	282,952
Rejected, awaiting response by applicant	142,430	2,350	144,780
Amended, awaiting action by examiner	44,634	425	45,059
In interference	553	-	553
On appeal, and other /1	12,359	88	12,447
In postexamination processing, total	**69,496**	**7,779**	**77,275**
Awaiting issue fee	40,623	3,585	44,208
Awaiting printing /2	25,750	4,194	29,944
D-10s (secret cases in condition for allowance)	3,123	-	3,123

- Represents zero
1/ Includes cases on appeal and undergoing petitions.
2/ Includes withdrawn cases.

TABLE 6

PATENTS ISSUED
(FY 1982 - FY 2002)

Year	Utility /1	Design	Plant	Reissue	Total
1982	59,449	5,299	120	284	65,152
1983	54,744	4,401	219	351	59,715
1984	66,753	4,935	174	287	72,149
1985	69,667	5,058	277	300	75,302
1986	71,301	5,202	227	263	76,993
1987	82,141	6,158	240	254	88,793
1988	77,317	5,740	283	244	83,584
1989	95,831	5,844	728	309	102,712
1990	88,974	7,176	295	282	96,727
1991	91,822	9,386	318	334	101,860
1992	99,405	9,612	336	375	109,728
1993	96,676	9,946	408	302	107,332
1994	101,270	11,138	513	347	113,268
1995	101,895	11,662	390	294	114,241
1996	104,900	11,346	338	291	116,875
1997	111,979	10,331	400	267	122,977
1998	139,298	14,420	577	284	154,579
1999	142,856	15,480	437	393	159,166
2000	164,490	16,719	453	561	182,223
2001	169,576	17,179	563	504	187,822
2002	**160,843**	**15,096**	**912**	**466**	**177,317**

1/ Includes chemical, electrical, and mechanical applications.

TABLE 7 — PATENT APPLICATIONS FILED BY RESIDENTS OF THE UNITED STATES /1 (FY 2002)

DATA IS PRELIMINARY

State/Territory	No. for 2002	State/Territory	No. for 2002	State/Territory	No. for 2002
Total	**196,570**	Kentucky	749	Oklahoma	911
		Louisiana	710	Oregon	3,445
Alabama	832	Maine	286	Pennsylvania	6,196
Alaska	82	Maryland	4,456	Rhode Island	564
Arizona	3,071	Massachusetts	8,283	South Carolina	1,031
Arkansas	317	Michigan	6,616	South Dakota	151
California	43,568	Minnesota	5,507	Tennessee	1,664
Colorado	4,289	Mississippi	257	Texas	11,306
Connecticut	3,558	Missouri	1,619	Utah	1,434
Delaware	623	Montana	224	Vermont	625
District of Columbia	171	Nebraska	415	Virginia	2,457
Florida	5,653	Nevada	1,059	Washington	5,361
Georgia	3,465	New Hampshire	1,180	West Virginia	249
Hawaii	144	New Jersey	7,116	Wisconsin	3,462
Idaho	3,269	New Mexico	667	Wyoming	118
Illinois	7,030	New York	11,422	Puerto Rico	72
Indiana	2,841	North Carolina	3,978	Virgin Islands	5
Iowa	1,127	North Dakota	139	U.S. Pacific Islands /2	1
Kansas	985	Ohio	5,890	United States /3	15,920

1/ Data include utility, plant, design, and reissue applications.

2/ Represents residents of American Samoa, Guam, and miscellaneous U.S. Pacific Islands.

3/ No State indicated in database.

TABLE 8

PATENTS ISSUED TO RESIDENTS OF THE UNITED STATES /1 (FY 2002)

State/Territory	No. for 2002	State/Territory	No. for 2002	State/Territory	No. for 2002
Total	**93,347**	Kentucky	480	Oklahoma	503
		Louisiana	488	Oregon	1,602
Alabama	420	Maine	162	Pennsylvania	3,546
Alaska	50	Maryland	1,544	Rhode Island	312
Arizona	1,630	Massachusetts	3,687	South Carolina	650
Arkansas	197	Michigan	3,994	South Dakota	86
California	20,068	Minnesota	2,803	Tennessee	899
Colorado	2,008	Mississippi	206	Texas	6,157
Connecticut	1,953	Missouri	946	Utah	740
Delaware	376	Montana	157	Vermont	485
District of Columbia	64	Nebraska	231	Virginia	1,311
Florida	2,761	Nevada	357	Washington	2,166
Georgia	1,471	New Hampshire	639	West Virginia	174
Hawaii	98	New Jersey	4,090	Wisconsin	2,002
Idaho	1,870	New Mexico	374	Wyoming	56
Illinois	3,831	New York	6,908	Puerto Rico	16
Indiana	1,631	North Carolina	2,129	U.S. Pacific Islands /2	2
Iowa	692	North Dakota	87	United States /3	-
Kansas	452	Ohio	3,784	Virgin Islands	2

1/ Data include utility, plant, design, and reissue patents.

2/ Represents residents of American Samoa, Guam, and miscellaneous U.S. Pacific Islands.

3/ No State indicated in database.

TABLE 9

UNITED STATES PATENT APPLICATIONS FILED BY RESIDENTS OF FOREIGN COUNTRIES /1
(FY 1998 - FY 2002)

FY 2002 DATA IS PRELIMINARY

Residence	1998	1999	FN	2000	2001	2002
Total	**110,461**	**125,423**		**136,102**	**154,205**	**156,824**
						-
Albania	1	-		-	-	-
Algeria	-	-		1	2	-
Andorra	2	1		-	3	3
Angola	-	-		-	-	1
Anguilla	-	1		-	-	1
Antigua & Barbuda	1	-		-	-	-
Argentina	121	102		138	146	104
Armenia	1	1	/3	1	4	1
Aruba	-	-		-	1	1
Australia	1,450	1,507		1,887	2,088	1,829
Austria	665	871		887	945	996
Azerbaijan	2	1		1	2	-
Bahamas	21	14		17	14	22
Bahrain	1	2		1	-	-
Bangladesh	-	-		-	1	1
Barbados	1	3		7	4	3
Belarus	3	6		11	4	6
Belgium	1,034	1,207		1,338	1,341	1,230
Belize	1	-		-	-	-
Benelux Convention	-	-		-	-	-
Bermuda	5	7		15	4	12
Bolivia	2	2		-	1	1
Bosnia & Herzegovina	1	1		1	-	-
Botswana	1	-		-	-	-
Brazil	167	206		240	247	234
British Virgin Islands	2	2		3	2	13
Brunei	-	-		-	2	2
Bulgaria	15	2		23	10	9
Canada	5,975	7,006		7,146	7,802	7,379
Cayman Islands	2	7		4	8	9
Chile	18	14		28	29	40
China (Hong Kong)	457	757		837	1,008	1,055
China (People's Republic)	289	271		437	694	857
Columbia	14	21		24	28	26
Congo, Dem. Republic of	-	-		-	-	-
Cook Islands	-	-		-	-	-
Costa Rica	20	8		29	8	17
Cote D'Ivorie	-	1		-	-	1
Croatia	18	15		18	22	16
Cuba	4	5		14	6	10
Cyprus	-	4		2	7	2
Czech Republic	39	37		58	83	49
Czechoslovakia	22	15		-	-	-
Denmark	776	938		941	1,130	1,075
Djibouti	-	-		-	-	-
Dominica	-	1		2	-	-
Dominican Republic	3	-		4	1	3
Ecuador	2	5		6	8	8
Egypt	8	19		21	16	14
El Salvador	1	1		2	3	1
EPO	-	-		-	-	-
Estonia	1	7		7	7	8
Ethiopia	-	-		-	-	-
Falkland Islands	-	-		-	-	-

Residence	1998	1999	FN	2000	2001	2002
Fiji	1	2		-	2	1
Finland	910	1,309		1,475	1,799	1,765
French Polynesia	-	-		2	-	-
France	5,414	6,398		6,859	7,154	6,414
French Guiana	-	-		-	-	-
Gabon	-	-		-	-	-
Georgia	6	2		1	5	3
Germany	13,799	17,446		17,858	19,776	18,424
Ghana	-	1		-	-	1
Gibraltar	-	-		-	-	1
Greece	47	47		45	48	45
Guadeloupe	-	-		-	-	-
Guatemala	3	2		1	12	3
Guyana	-	-		-	1	-
Guinea	1	-		-	-	-
Haiti	-	-		2	-	1
Honduras	5	6		1	1	-
Hungary	69	115		116	91	119
Iceland	28	30		39	39	32
India	182	263		389	636	726
Indonesia	7	26		15	10	23
Iran	16	2		1	4	3
Iraq	-	-		-	1	1
Ireland	197	264		339	401	392
Israel	1,499	1,938		2,477	2,781	2,449
Italy	2,449	2,835		3,031	3,185	2,952
Jamaica	4	4		2	1	2
Japan	46,569	47,413		54,365	62,676	57,214
Jordan	5	5		-	4	3
Kazakhstan	1	10		2	2	1
Kenya	1	8		1	13	12
Korea, Dem. Republic of	63	-		-	-	-
Korea, Republic of	5,625	5,634		5,882	6,792	7,210
Kuwait	13	12		10	6	10
Kyrgyzstan	-	1		-	-	-
Laos	-	-		-	-	-
Latvia	5	2		2	5	-
Lebanon	3	5		4	9	12
Lesotho	-	-		-	-	-
Liechtenstein	15	26		26	33	30
Lithuania	2	3		4	8	2
Luxembourg	49	51		65	77	73
Macau	-	2		-	4	7
Madagascar	-	1		-	2	-
Macedonia	-	-		3	2	-
Malaysia	58	74		94	144	127
Maldives	-	-		-	-	-
Mali	1	-		-	-	-
Malta	2	-		1	6	3
Marshall Islands	-	-		-	1	-
Mauritius	1	-		-	1	-
Mexico	152	172		180	220	155
Moldova	1	-		1	2	2
Monaco	13	14		26	29	19
Mongolia	-	-		-	-	-
Montserrat	-	-		-	-	-

TABLE 9 CONT.

UNITED STATES PATENT APPLICATIONS FILED BY RESIDENTS OF FOREIGN COUNTRIES /1
(FY 1998 - FY 2002)

FY 2002 DATA IS PRELIMINARY

Residence	1998	1999	FN	2000	2001	2002
Morocco	3	1		5	1	1
Myanmar	1	-		-	-	-
Namibia	-	1		-	-	-
Nauru	1	-		-	-	-
Nepal	-	-		-	-	-
Netherlands	1,914	2,158		2,446	2,822	2,637
Netherlands Antilles	3	1		-	1	1
New Caledonia	2	-		-	-	3
New Zealand	204	249		296	355	339
Nicaragua	-	-		-	1	-
Niger	1	-		-	-	-
Nigeria	3	1		5	7	3
Norfolk Island	-	-		-	-	1
Norway	341	399		465	452	448
Oman	-	-		-	-	1
Pakistan	3	2		6	2	7
Palau	-	1		-	-	1
Panama	4	8		4	10	4
Paraguay	1	-		2	-	-
Peru	3	8		6	8	7
Philippines	21	28		32	47	69
Poland	16	27		35	43	47
Portugal	17	29		22	27	25
Qatar	-	-		-	-	1
Romania	9	5		10	13	5
Russian Federation	271	360		384	417	344
Saint Kitts & Nevis	-	2		2	2	1
San Marino	-	-		-	1	-
Saudi Arabia	24	17		24	32	30
Senegal	1	-		-	-	-
Seychelles	2	-		-	1	-
Sierra Leone	-	-		-	-	-
Singapore	315	444		680	766	710
Slovakia	10	5		10	3	10
Slovenia	26	20		27	21	25
Solomon Islands	-	-		-	-	-
South Africa	215	243		199	259	201
Soviet Union	1	-		-	-	-
Spain	442	481		595	611	587
Sri Lanka	3	13		8	8	18
St. Lucia	-	-		-	1	1
Suriname	2	-		1	-	-
Swaziland	17	-		-	-	-
Sweden	2,390	2,770		2,840	3,001	2,231
Switzerland	1,897	2,245		2,318	2,494	2,253
Syria Arab Rep	-	5		3	-	3
Taiwan	7,627	11,392		10,380	12,403	12,806
Tanzania	-	-		1	1	1
Thailand	34	61		91	106	83
Trinidad & Tobago	2	1		8	1	1
Tunisia	-	1		-	1	2
Turkey	26	35		27	31	35
Turks and Caicos Islands	-	-		2	5	7
Uganda	1	4		-	-	-
Ukraine	31	20		23	39	42
United Arab Emirates	6	7		6	2	9
United Kingdom	6,072	7,128		7,613	8,464	7,678
Uruguay	5	4		2	7	8
Uzbekistan	3	4		3	-	2
Vatican City	-	-		-	-	-
Venezuela	43	44		42	65	38
Vietnam	1	1		1	5	1
Yemen	1	-		-	-	-
Yugoslavia	6	6	/3	7	4	7
Zimbabwe	3	1		1	1	2
Other /2	75	-		-	-	12,812

- Represents zero.

1/ Data include utility, design, plant, and reissue applications. Country listings include possessions and territories of that country unless listed separately in the table.
2/ Country of origin information not available.
3/ Revised from FY 1999 Report

TABLE 10

PATENTS ISSUED BY THE UNITED STATES TO RESIDENTS OF FOREIGN COUNTRIES /1
(FY 1998 - FY 2002)

Residence	1998	1999	FN	2000	2001	2002
Total	**68,796**	**70,047**		**81,675**	**86,203**	**83,970**
Albania	-	-		1	-	-
Algeria	-	1	/2	-	1	-
Andorra	2	1		-	-	1
Anguilla	1	-		-	-	-
Antigua & Barbuda	-	-		1	-	-
Argentina	41	45		65	58	54
Armenia	-	-		1	1	1
Aruba	-	-		2	-	1
Australia	754	795		885	1,041	955
Austria	413	443		544	653	535
Azerbaijan	-	1		1	-	-
Bahamas	13	12		13	12	14
Bahrain /2	-	-		3	-	-
Barbados	-	1		-	2	6
Belarus	7	5		4	5	3
Belgium	713	667		807	805	772
Bermuda	1	2		-	5	4
Bolivia	1	-		3	-	-
Bosnia and Herzogovinia	-	-		-	1	1
Brazil	79	87		122	127	113
British Virgin Islands	3	2		1	1	-
Brunei	-	-		-	-	1
Bulgaria	2	5		2	5	1
Canada	3,302	3,498		4,060	4,157	3,809
Cayman Islands	6	4		6	6	6
Chile	16	12		15	15	13
China (Hong Kong)	361	395	/2	540	603	546
China (Mainland)	87	86	/2	143	239	347
Colombia	7	4		6	13	14
Congo, Dem. Republic of	-	-		-	-	-
Cook Islands	-	-		-	-	-
Costa Rica	2	10		12	8	10
Croatia	10	17		11	8	10
Cuba	4	4		1	4	8
Cyprus	-	-		1	1	-
Czech Republic	15	18		42	32	24
Czechoslovakia	8	7		8	7	4
Denmark	533	551		536	532	569
Dominica	-	-		1	2	-
Dominican Republic	-	3		2	3	-
Ecuador	7	4		-	3	1
Egypt	1	1		6	10	4
El Salvador /2	1	-		-	3	-
Estonia	-	1		2	4	5
Faroe Islands	-	-		-	-	-
Fiji	-	-		-	-	1
Finland	576	665		679	778	805
France	3,823	3,802		4,392	4,576	4,289
French Guiana	-	-		-	-	-
French Polynesia	-	-		-	1	1
Georgia	-	-		1	2	1
Germany	9,304	9,113		10,978	12,128	11,529
Ghana	-	1		-	-	-
Gibralter	-	-		1	-	-

Residence	1998	1999	FN	2000	2001	2002
Greece	17	21		22	23	21
Guadeloupe	-	-		-	-	-
Guatemala	2	2		2	-	5
Guinea	-	-		1	-	-
Haiti	-	1		-	-	-
Honduras	1	5		1	-	2
Hungary	46	38		41	57	49
Iceland	6	10		15	23	17
India	80	109		123	159	254
Indonesia	9	4		15	9	14
Iran	1	1		-	1	1
Ireland	74	104		128	174	136
Israel	760	748		856	1,023	1,042
Italy	1,754	1,595		1,915	2,052	1,945
Jamaica	1	1		2	1	2
Japan	30,490	30,425		34,563	34,875	34,954
Jordan	2	2		-	3	1
Kazakhstan	2	1		4	3	2
Kenya	1	2		1	4	3
Korea, Dem. Republic of	-	-		-	-	-
Korea, Republic of	3,052	3,477		3,699	3,783	3,755
Kuwait	4	12		11	4	11
Kyrgyzstan	-	-		-	2	-
Latvia	1	2		2	-	1
Lebanon	1	3		3	4	2
Liechtenstein	16	15		19	22	15
Lithuania	1	4		2	4	2
Luxembourg	47	46		48	46	52
Macau	-	-		-	-	-
Madagascar	-	-		1	1	1
Malaysia	38	27		51	51	57
Malta	2	-		2	2	-
Marshall Islands	-	1		-	-	1
Mauritius	-	-		1	-	-
Mexico	83	79	/2	107	95	93
Moldova, Republic	-	3		-	-	1
Monaco	9	12		14	21	16
Morocco	2	1		2	2	-
Myanmar	-	1		-	-	-
Namibia	-	-		1	-	-
Netherlands	1,282	1,322		1,484	1,465	1,604
Netherlands Antilles	1	1		2	-	2
New Caledonia	1	-		-	-	-
New Zealand	135	140		149	147	162
Nicaragua	-	1		-	-	-
Nigeria	1	1		2	-	3
Norfolk Island	-	1		-	-	-
Norway	217	224		266	292	262
Pakistan	1	1		4	2	2
Panama	-	-		3	1	1
Paraguay	-	1		-	-	-
Peru	1	5		4	6	1
Philippines	25	16		17	14	20
Poland	16	21		9	20	14
Portugal	9	11		10	16	12
Palau	-	-		1	-	-

TABLE 10 CONT.

PATENTS ISSUED BY THE UNITED STATES TO RESIDENTS OF FOREIGN COUNTRIES /1
(FY 1998 - FY 2002)

Residence	1998	1999	FN	2000	2001	2002
Qatar	-	-		-	-	-
Romania	-	5		4	10	5
Russian Federation	175	174		192	242	198
Saint Kitts & Nevis	2	-		1	2	1
Saint Vincent/The Grenadines	-	-		-	-	-
San Marino	-	1		-	-	-
Saudi Arabia	12	12		21	13	8
Singapore	122	134		220	299	392
Slovakia	2	6		3	3	8
Slovenia	15	13		18	22	16
South Africa	126	115		145	144	107
Soviet Union	6	2		3	-	1
Spain	285	262		321	350	350
Sri Lanka	2	1		2	5	5
Suriname	-	1		1	1	-
Sweden	1,258	1,368		1,805	1,946	1,824
Switzerland	1,339	1,310		1,516	1,574	1,489
Syrian Arab Rep	-	1		4	1	1
Taiwan	3,543	4,105		5,578	6,766	6,346
Tanzania	-	-		-	1	-
Thailand	14	23		36	46	49
Trinidad & Tobago	3	1		-	2	2
Tunisia	1	-		-	-	1
Turkey	3	2		5	14	16
Turks and Caicos Islands	1	-		1	1	1
Uganda	-	-		-	1	1
Ukraine	15	16		13	28	28
United Arab Emirates	1	-		3	7	6
United Kingdom	3,548	3,686		4,241	4,425	4,076
Uruguay	3	4		-	1	3
Uzbekistan	1	-		3	2	1
Venezuela	30	40		31	33	27
Vietnam	-	1		1	-	5
Yemen	-	-		-	-	1
Yugoslavia	5	3		4	4	5
Zimbabwe	-	1		1	1	1

- Represents zero.

1/ Data include utility, design, plant, and reissue patents. Country listings include possessions and territories of that country unless separately listed in the table.
2/ Revised from FY 1999 Report

TABLE 11

STATUTORY INVENTION REGISTRATIONS (SIRs) PUBLISHED
(FY 1998 - FY 2002)

Assignee	1998	1999	2000	2001	2002
Air Force	4	1	-	11	8
Army	-	4	2	4	1
Energy	1	1	1	2	1
Navy	6	8	5	20	10
USA /1	1	2	-	1	1
Other Than U.S. Government	56	37	50	93	32
Total	**68**	**53**	**58**	**131**	**53**

- Represents zero
1/ Agency not indicated in database.

TABLE 12

UNITED STATES GOVERNMENT AGENCY PATENTS /1
(FY 1992 - FY 2002)

AGENCY	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	TOTAL
Agriculture	48	57	38	44	48	39	68	79	57	65	46	589
Air Force	138	126	130	104	101	78	81	83	79	103	66	1,089
Army	172	147	194	163	138	169	160	146	151	151	149	1,740
Commerce	17	21	28	35	22	21	16	20	19	21	20	240
Energy	218	193	201	146	60	70	69	48	51	68	52	1,176
EPA	4	7	5	4	7	9	2	4	6	11	8	67
FCC	-	-	-	-	-	-	-	1	-	-	1	2
HEW/HHS	67	88	99	96	110	144	148	153	119	98	91	1,213
Interior	23	9	10	13	20	6	3	6	5	7	7	109
Library of Congress	-	-	-	1	1	-	-	-	-	-	-	2
NASA	166	155	148	157	102	92	104	87	98	92	81	1,282
Navy	314	333	360	352	299	279	347	306	369	326	362	3,647
NSA	3	5	6	4	3	1	3	7	16	11	11	70
Postal Service	-	-	-	1	1	1	-	-	-	2	-	5
State Department	-	-	-	1	-	-	-	-	-	1	-	2
Transportation	-	2	1	-	-	-	3	1	3	-	1	11
Treasury	-	-	-	-	-	1	-	-	-	-	-	1
TVA	5	1	2	5	4	4	2	6	2	3	-	34
USA /2	10	9	3	9	5	9	7	8	1	1	-	62
VA	-	-	-	-	-	-	-	-	-	1	2	3
Total	**1,185**	**1,153**	**1,225**	**1,135**	**921**	**923**	**1,013**	**955**	**976**	**961**	**897**	**11,344**

- Represents zero

1/ Data in this table represent utility patents assigned to agencies at the time of patent issue.

2/ United States of America - no agency indicated in database.

TABLE 13A

EX PARTE REEXAMINATION
(FY 1998 - FY 2002)

ACTIVITY	1998	1999	2000	2001	2002
Requests filed, total	**350**	**385**	**318**	**296**	**272**
By patent owner	168	173	137	144	121
By third party	178	181	172	150	140
Commissioner ordered	4	31	9	2	11
Determinations on requests, total	**348**	**367**	**338**	**342**	**272**
Requests granted:					
By examiner	315	327	320	263	262
By petition	2	1	2	2	1
Requests denied	31	39	16	77	9
Requests known to have related litigation	**66**	**62**	**80**	**80**	**52**
Filings by discipline, total	**350**	**385**	**318**	**296**	**272**
Chemical	120	138	96	90	87
Electrical	94	107	103	89	78
Mechanical	136	140	119	117	107

TABLE 13B

INTER PARTES REEXAMINATION
(FY 2000 - FY 2002)

ACTIVITY	2000	2001	2002
Requests filed, total	**-**	**1**	**4**
Determinations on requests, total	**-**	**-**	**5**
Requests granted:	-	-	5
By examiner	-	-	-
By petition	-	-	-
Requests denied	-	-	-
Requests known to have related litigation	**-**	**-**	**-**
Filings by discipline, total	**-**	**1**	**4**
Chemical	-	1	2
Electrical	-	-	-
Mechanical	-	-	2

TABLE 14

SUMMARY OF CONTESTED PATENT CASES

(Within the Patent and Trademark Office, as of September 30, 2002)

ITEM	TOTAL
Ex parte cases	
Appeals /1	
Cases Pending as of 9/30/01	5,050
Cases Filed During FY 02	3,125
Disposals During FY 02, total	
Decided, total	**5,085**
Affirmed	1,522
Affirmed-in-Part	471
Reversed	1,901
Dismissed / Withdrawn	92
Remanded	1,099
Cases Pending as of 9/30/02	**3,090**
Rehearings	
Cases Pending as of 9/30/02	20
Inter partes cases	
Cases pending as of 9/30/01	219
Cases declared or reinstituted during FY 02	109
Inter partes cases, FY 02 total	**328**
Cases terminated during FY 02	157
Cases pending as of 9/30/02	**171**

1/ Jurisdiction of an appeal passes to the Board of Patent Appeals and Interferences after the examiner has written the answer and after the time for filing a reply brief to the answer has passed.

TABLE 15

SUMMARY OF TRADEMARK EXAMINING ACTIVITIES

(FY 1998 - FY 2002)

ITEM	1998	1999	2000	2001	2002
Applications for Registration:					
Applications including Additional Classes	232,384	295,165	375,428	296,388	258,873
Applications Filed /1	193,034	240,308	296,490	232,939	207,287
Disposal of Trademark Applications:					
Registrations including Additional Classes	106,279	104,324	127,794	124,502	164,457
Abandonments including Additional Classes	71,838	77,184	101,099	142,973	120,102
Trademark First Actions including Additional Classes	238,191	338,937	352,325	464,618	253,187
Applications Approved for Publication including Additional Clases	145,209	181,366	203,251	235,419	217,487
Certificates of Registration Issued: /2					
1946 Act Principal Register	56,730	57,046	73,888	61,152	81,096
Principal Register					
ITU-Statements of Use Registered	29,287	26,810	27,170	36,188	45,064
1946 Act Supplemental Register	3,617	3,918	5,325	4,974	7,065
Total Certificates of Registration	89,634	87,774	106,383	102,314	133,225
Renewal of Registration:*					
Section 9 Applications Filed	7,413	7,944	24,435	24,174	34,325
Section 8 Applications Filed**	N/A	N/A	24,099	24,167	34,271
Registrations Renewed	6,504	6,280	8,821	31,477	29,957
Affidavits, Sec. 8/15:					
Affidavits Filed	33,231	33,104	28,920	33,547	39,484
Affidavits Disposed	26,199	29,119	28,894	37,092	35,375
Affidavits for Benefits:					
Under Sec. 12(c)					
Published Under Sec. 12(c)	11	8	3	15	26
Amendments to Allege Use Filed	6,955	3,554	8,971	8,582	8,261
Statements of Use Filed	37,060	34,367	36,119	47,811	53,974
Notice of Allowance Issued	78,072	82,940	120,177	120,166	158,868
Total Active Certificates of Registration	**901,805**	**931,273**	**1,020,126**	**1,063,164**	**1,116,200**
Pendency - Average Months:					
Between Filing and Examiner's First Action	7.2	4.6	5.7	2.7	4.3
Between Filing, Registration (Use Applications)					
Abandonments, and NOA's	17.8	18.9	17.3	17.8	19.9
Between Filing and Issuing a NOA					
(Intent to Use Applications)	17.8	18.9	16.0	16.4	18.3

- Represents zero.

1/ "Applications filed" refers simply to the number of individual trademark applications received by the PTO.There are, however, 47 different classes of items in which a trademark may be registered. An application must request registration in at least one class, but may request registration in multiple classes. Each class application must be individually researched for registerability. "Applications filed, including additional classes" reflects this fact, and therefore more accurately reflects the Trademark business workload. With the exception of Certificates of Registration, Renewal of Registration, Affidavits filed under Section 8/15 and 12(c), the workload count includes extra classes.

2/ With the exception of Certificates of Registration, Renewal of Registration, Affidavits filed under Section 8/15 and 12(c), the workload count includes extra classes.

**Renewal of registration is required beginning 10 years following registration concurrent with 20 year renewals coming due.*

***Section 8 Affidavit is required for filing a renewal beginning October 30, 1999 (FY 2000) with the implementation of the Trademark Law Treaty.*

Workload Sources:
Applications Filed are taken from the TRAMPY10AR01 Report.
Registration and Post Registration data is taken from the TRAM Megaspec TMIIMC38-PO1 and TMIIFY15-PO1 Report.
Abandonments are taken from the TRAM TMIIMR08 - PO1 Report.
First Actions and Approvals for Publication are taken from the TRAM Progress Summary Report.
Pendency is taken from the TRAM Examination Pendency Plus Suspended/Inter Partes Cases TMIIPE05-PO3.
Statements of Use are taken from the TRAM TMIIFY20-PO1 Report.
Notices of Allowance Issued are taken from the TMAM TMIIFY25-PO1 Report.
Total Active TM registrations are taken from the TMIIXS40-01TRAM Data Base Statistics report.

TABLE 16

TRADEMARK APPLICATIONS FILED FOR REGISTRATION AND RENEWAL AND TRADEMARK AFFIDAVITS FILED

(FY 1982 - FY 2002)

YEAR	FOR REGISTRATION	FOR RENEWAL	SECTION 8 AFFIDAVIT	SEC. 12(C) AFFIDAVIT
1982	73,621	5,760	15,068	55
1983	51,014	5,438	12,544	46
1984	61,480	5,926	13,519	5
1985	64,677	5,275	8,823	29
1986	69,253	5,660	8,519	19
1987	70,002	5,871	16,644	34
1988	76,813	6,763	18,316	23
1989	83,169	6,127	17,986	104
1990	127,294	6,602	20,636	5
1991	120,365	5,634	25,763	1
1992	125,237	6,355	20,982	25
1993	139,735	7,173	21,999	5
1994	155,376	7,004	20,850	4
1995	175,307	7,346	23,497	-
1996	200,640	7,543	22,169	6
1997	224,355	6,720	20,781	2
1998	232,384	7,413	33,231	-
1999	295,165	7,944	33,104	-
2000	375,428	24,435*	28,920	-
2001	296,388	24,174	33,547	4
2002	**258,873**	**34,325**	**39,484**	**-**

- Represents zero
** Concurrent 10 and 20 year renewal of registration.*

Registration and Post Registration data is taken from the TRAM Megaspec TMIIMC38-PO1 and TMIIFY15-PO1 Report.

TABLE 17

SUMMARY OF PENDING TRADEMARK APPLICATIONS

(As of September 30, 2002)

STAGE OF PROCESSING	APPLICATION FILES	CLASSES
Pending applications, total	**479,628**	**654,533**
In preexamination processing	**63,289**	**75,947**
Under examination, total	**309,528**	**432,240**
Applications under initial examination	**101,304**	**139,799**
Amended, awaiting action by Examiner	95,128	132,499
Awaiting first action by Examiner	6,176	7,300
ITU applications pending Use	**146,610**	**198,041**
Applications under second examination	**8,255**	**10,665**
Administrative processing of Statements of Use	1,367	1,756
Undergoing second examination	923	1,129
Amended, awaiting action by Examiner	5,965	7,780
Other pending applications /1	**53,359**	**83,735**
In postexamination processing (Includes all applications in all phases of publication and issue and registration)	**106,811**	**146,346**

1/ Includes applications pending before the Trademark Trial and Appeal Board, and suspended cases.

TABLE 18 **TRADEMARKS REGISTERED, RENEWED, AND PUBLISHED UNDER SECTION 12(C) /1 (FY 1982 - FY 2002)**

YEAR	CERTIFICATES OF REGIS. ISSUED	RENEWED	PUBLISHED UNDER 12(C)	REGISTRATIONS *(Incl Classes)*
1982	39,025	6,070	71	-
1983	41,179	5,695	74	-
1984	45,475	5,678	22	-
1985	63,122	5,177	27	-
1986	48,971	5,550	29	-
1987	47,522	4,415	24	-
1988	46,704	5,884	29	-
1989	51,802	9,209	84	-
1990	56,515	7,122	19	-
1991	43,152	6,416	19	-
1992	62,067	5,733	13	-
1993	74,349	6,182	21	86,122
1994	59,797	6,136	11	68,853
1995	65,662	6,785	4	75,372
1996	78,674	7,346	11	91,339
1997	97,294	7,389	11	112,509
1998	89,634	6,504	8	106,279
1999	87,774	6,280	3	104,324
2000	106,383	8,821	15	127,794
2001	102,314	31,477	11	124,502
2002	**133,225**	**29,957**	**26**	**164,457**

- Represents zero
1/ Includes withdrawn numbers.

TABLE 19 **TRADEMARK APPLICATIONS FILED BY RESIDENTS OF THE UNITED STATES (FY 2002)**

State/Territory	No. for 2002	State/Territory	No. for 2002	State/Territory	No. for 2002
Total	**208,821**	Kentucky	1,272	Oklahoma	1,074
		Louisiana	968	Oregon	2,040
Alabama	1,245	Maine	485	Pennsylvania	6,573
Alaska	110	Maryland	4,020	Rhode Island	1,046
Arizona	3,666	Massachusetts	6,766	South Carolina	1,255
Arkansas	634	Michigan	4,878	South Dakota	236
California	43,105	Minnesota	4,750	Tennessee	2,590
Colorado	4,314	Mississippi	497	Texas	10,872
Connecticut	3,656	Missouri	3,459	Utah	2,033
Delaware	3,280	Montana	301	Vermont	436
District of Columbia	1,864	Nebraska	802	Virginia	4,783
Florida	11,830	Nevada	2,543	Washington	4,389
Georgia	4,962	New Hampshire	821	West Virginia	270
Hawaii	457	New Jersey	8,768	Wisconsin	3,182
Idaho	585	New Mexico	515	Wyoming	285
Illinois	10,403	New York	21,202	Puerto Rico	258
Indiana	2,256	North Carolina	3,983	Virgin Islands	17
Iowa	1,115	North Dakota	271	U.S. Pacific Islands /1	20
Kansas	1,145	Ohio	6,463	United States /2	71

- Represents zero

1/ Represents residents of American Samoa, Guam, and miscellaneous U.S. Pacific Islands.

2/ No State indicated in data base, includes APO filings.

TABLE 20 TRADEMARKS REGISTERED TO RESIDENTS OF THE UNITED STATES / 1 (FY 2002)

State/Territory	No. for 2002	State/Territory	No. for 2002	State/Territory	No. for 2002
Total	**114,173**	Kentucky	563	Oklahoma	434
		Louisiana	460	Oregon	950
Alabama	428	Maine	251	Pennsylvania	2,797
Alaska	71	Maryland	1,426	Rhode Island	340
Arizona	1,236	Massachusetts	2,295	South Carolina	535
Arkansas	203	Michigan	2,067	South Dakota	109
California	12,480	Minnesota	2,206	Tennessee	878
Colorado	1,360	Mississippi	158	Texas	4,021
Connecticut	985	Missouri	1,499	Utah	953
Delaware	26,760	Montana	152	Vermont	219
District of Columbia	765	Nebraska	429	Virginia	1,490
Florida	4,136	Nevada	1,760	Washington	1,937
Georgia	1,951	New Hampshire	360	West Virginia	82
Hawaii	210	New Jersey	2,514	Wisconsin	1,663
Idaho	192	New Mexico	193	Wyoming	138
Illinois	3,782	New York	6,964	Puerto Rico	79
Indiana	1,308	North Carolina	1,454	Virgin Islands	7
Iowa	639	North Dakota	85	U.S. Pacific Islands /2	6
Kansas	512	Ohio	2,873	United States /3	12,808

- Represents zero

1/ When a trademark is registered, the trademark database is corrected to indicate the home state of the entity registering the trademark.

2/ Represents residents of American Samoa, Guam, and miscellaneous U.S. Pacific Islands.

3/ No State indicated in data base, includes APO filings.

TABLE 21

TRADEMARK APPLICATIONS FILED BY RESIDENTS OF FOREIGN COUNTRIES
(FY 1998 - FY 2002)

Residence	1998	1999	2000	2001	2002
Total	**36,249**	**44,549**	**67,035**	**65,589**	**50,052**
Algeria	-	-	1	-	-
Andorra	5	7	3	1	5
Angola	-	1	3	1	1
Anguilla	5	4	14	18	11
Antigua & Barbuda	-	6	15	43	30
Argentina	126	142	326	246	189
Armenia	-	3	9	8	1
Aruba	4	7	5	13	9
Australia	1,018	1,423	2,321	1,731	1,478
Austria	343	500	632	604	743
Bahamas	95	101	148	153	220
Bahrain	-	4	-	3	3
Bangladesh	-	-	-	7	-
Barbados	14	88	89	92	120
Belarus	3	-	5	-	2
Belgium	321	409	619	548	454
Belize	4	8	9	15	23
Benelux Convention	-	-	8	-	2
Bermuda	97	148	321	258	322
Bolivia	1	1	6	2	4
Botswana	-	-	-	-	-
Brazil	209	211	357	443	472
British Virgin Islands	235	232	696	363	259
Brunei	15	-	-	1	-
Bulgaria	4	13	5	6	2
Burundi	2	-	2	-	-
Cambodia	7	7	6	1	1
Cameroon	3	-	-	-	3
Canada	6,499	7,889	9,844	8,086	6,765
Cayman Islands	64	50	265	190	117
Central African Republic	-	-	-	-	1
Channel Islands	42	-	110	65	72
Chile	58	101	132	207	141
China (mainland)	331	301	438	448	472
Christmas Island	-	-	4	-	2
Colombia	57	79	183	170	135
Comoros	1	-	3	1	-
Congo, Dem. Republic of	-	-	-	-	-
Cook Islands	3	-	1	10	9
Costa Rica	21	11	25	12	23
Cote d'Ivoire	-	-	-	-	1
Croatia	11	2	9	7	10
Cuba	2	-	1	1	2
Cyprus	28	31	71	34	21
Czechoslovakia	26	30	50	39	58
Denmark	348	382	604	716	568
Djibouti	3	-	-	-	-
Dominica	5	-	2	2	-
Dominican Republic	59	65	62	43	40
Ecuador	28	19	22	40	10
Egypt	5	2	10	24	3
El Salvador	12	9	25	59	33
EPO	1	1	-	-	-

Residence	1998	1999	2000	2001	2002
Estonia	-	7	5	13	10
Ethiopia	-	-	1	-	-
Faroe Islands	-	-	-	-	-
Fiji	3	3	1	-	10
Finland	219	340	473	656	442
France	3,095	3,695	4,860	4,636	3,546
French Guiana	-	-	-	-	1
French Polynesia	3	2	8	1	1
French South/Antarctic	1	-	-	-	-
Gabon	-	-	-	-	-
Georgia	11	7	7	12	1
Germany	4,519	6,307	10,218	9,474	7,195
Ghana	2	5	-	-	-
Gibraltar	6	48	31	12	11
Greece	22	30	92	22	46
Greenland	-	-	3	-	-
Grenada	2	1	3	3	1
Guadeloupe	4	-	-	-	1
Guatemala	7	18	14	30	19
Guinea	-	1	-	-	-
Guyana	-	2	2	2	4
Hague	-	-	-	-	-
Haiti	5	3	-	8	6
Honduras	15	3	3	4	1
Hong Kong	478	625	1,097	898	860
Hungary	11	21	31	48	35
Iceland	24	26	50	64	15
India	78	123	252	214	267
Indonesia	29	23	31	50	37
Iran	-	-	-	3	-
Ireland	223	386	560	469	331
Isle of Man	41	28	38	34	55
Israel	431	621	1,033	835	448
Italy	1,562	1,868	2,548	2,380	1,919
Jamaica	40	33	51	56	33
Japan	2,883	3,028	4,273	9,008	4,450
Jordan	2	28	7	13	14
Kazakhstan	-	-	-	-	-
Kenya	2	-	5	42	13
Korea, Dem. Republic of	1	5	4	-	1
Korea, Republic of	436	498	943	913	887
Kuwait	2	8	7	7	3
Latvia	2	3	3	4	-
Laos	-	-	-	-	-
Lebanon	2	14	4	13	10
Liberia	2	2	3	-	-
Liechtenstein	100	110	149	89	61
Lithuania	-	-	2	3	3
Luxembourg	113	137	198	135	186
Macau	7	2	-	1	3
Macedonia	-	1	-	1	-
Madagascar	-	-	-	-	1
Malawi, Republic of	-	-	-	-	-
Malaysia	46	42	94	66	60
Mali	-	-	-	-	-

TABLE 21 CONT.

TRADEMARK APPLICATIONS FILED BY RESIDENTS OF FOREIGN COUNTRIES
(FY 1998 - FY 2002)

Residence	1998	1999	2000	2001	2002
Malta	3	1	26	6	3
Marshall Islands	1	-	-	2	-
Martinique	-	-	1	1	1
Mauritania	1	-	2	-	-
Mauritius	1	18	61	30	38
Mayotte	-	1	-	-	-
Mexico	677	852	809	982	1,026
Micronesia	1	-	1	-	1
Moldova	-	-	1	2	-
Monaco	87	104	70	136	72
Mongolia	-	-	3	-	-
Morocco	2	7	2	-	1
Myanmar	-	-	-	-	-
N. Mariana Island	-	2	-	-	3
Namibia	-	-	-	3	1
Nauru	-	-	-	-	-
Navassa Island	-	-	-	-	-
Nepal	1	-	-	5	9
Netherlands	1,207	1,472	2,220	2,063	1,596
Netherlands Antilles	39	97	92	64	55
New Caledonia	-	4	-	1	-
New Hebrides	2	-	-	1	-
New Zealand	218	314	324	359	292
Newfoundland	-	2	1	2	5
Nicaragua	4	2	3	5	5
Nigeria	-	-	9	-	15
Norway	240	226	317	319	206
Oman	-	-	4	2	2
Pakistan	2	10	6	5	4
Panama	28	46	20	36	47
Papua New Guinea	-	-	-	-	-
Paraguay	1	4	4	4	2
Peru	7	10	20	27	37
Philippines	17	19	15	42	31
Poland	24	26	41	64	59
Portugal	57	95	110	134	106
Qatar	-	1	1	6	6
Reunion	-	-	2	-	-
Romania	3	9	2	14	14
St. Kitts & Nevis	1	-	-	-	-
Saint Christ-Nevis	-	-	-	-	6
Saint Lucia	-	-	-	-	2
Saint Vincent/Grenadines	-	12	1	14	1
Samoa	-	2	1	-	1
San Marino	4	-	-	6	-

Residence	1998	1999	2000	2001	2002
Saudi Arabia	21	10	29	22	18
Scotland	82	105	51	95	82
Senegal, Republic of	-	-	-	1	-
Seychelles	1	11	1	5	5
Sierra Leone	-	-	-	-	-
Singapore	161	186	419	339	283
Slovakia	8	-	-	3	3
Slovenia	9	10	18	8	36
Solomon Islands	-	-	-	4	-
Somalia	-	-	-	-	-
South Africa	142	169	263	206	170
Russian Federation	46	110	135	111	145
Spain	690	694	1,149	1,035	852
Sri Lanka	8	3	28	7	6
Sudan	-	-	-	-	1
Suriname	-	1	-	1	-
Swaziland	33	5	7	57	-
Sweden	961	1,213	1,722	1,490	836
Switzerland	1,674	2,032	3,385	3,023	2,754
Taiwan	774	961	1,283	1,060	1,143
Tajikistan	1	-	-	-	-
Tanzania	2	-	-	-	-
Thailand	38	88	82	78	103
Tokelau	-	-	-	1	-
Tonga	1	-	-	-	-
Trinidad & Tobago	9	8	8	11	9
Tunisia	-	1	4	1	-
Turkey	61	46	61	131	85
Turks and Caicos Islands	2	6	12	2	5
Uganda	-	-	-	-	1
Ukraine	2	1	6	17	2
United Arab Emirates	6	19	19	61	31
United Kingdom	4,265	5,056	9,367	7,860	5,597
Uruguay	16	22	34	17	19
Uzbekistan	-	-	-	-	-
Vanuatu	-	3	21	9	2
Venezuela	53	50	116	115	75
Vietnam	7	5	14	5	55
Yemen	-	-	-	-	-
Yugoslavia	1	-	-	-	4
Yukon Territory	-	1	-	-	-
Zambia	-	1	-	-	-
Zimbabwe	-	3	1	2	2
Other /1	3	2	66	547	257

- Represents zero.

1/ Country of Origin information not available or not indicated in database, includes ARIPO filings.

TABLE 22

TRADEMARKS REGISTERED TO RESIDENTS OF FOREIGN COUNTRIES (FY 1998- FY 2002)

Residence	1998	1999	2000	2001	2002
Total	**11,655**	**11,419**	**15,376**	**21,269**	**19,052**
Afghanistan	-	-	-	1	-
Algeria	-	1	1	-	-
Andorra	-	1	1	1	-
Angola, Republic of	-	-	-	3	2
Anguilla	4	2	2	2	1
Antigua & Barbuda	6	2	5	12	15
Argentina	57	36	43	47	68
Armenia	-	-	-	2	5
Aruba	-	-	-	-	1
Australia	343	312	368	629	663
Austria	75	101	170	217	171
Azerbaijan	1	-	-	-	-
Bahamas	32	21	36	31	41
Bahrain	-	1	1	1	1
Bangladesh	-	-	-	-	-
Barbados	6	11	9	22	26
Belarus	1	-	1	-	1
Belgium	97	120	135	211	205
Belize	-	1	-	4	3
Benelux Convention	-	2	2	-	1
Bermuda	38	43	35	82	94
Bolivia	-	1	3	1	-
Bosnia & Herzegovina	1	-	-	-	-
Brazil	59	66	59	55	110
British Virgin Islands	42	64	-	-	133
Brunei Darussalam	-	-	-	-	1
Bulgaria	-	2	2	2	5
Cambodia	-	-	2	-	1
Canada	2,161	2,052	2,460	3,062	2,911
Cayman Islands	30	37	29	47	43
Central African Rep.	-	1	-	-	-
Channel Islands	8	14	10	7	50
Chile	33	39	24	35	45
China (mainland)	101	132	182	197	174
Colombia	27	32	21	44	58
Comoros	-	1	-	-	-
Cook Islands	2	1	-	2	7
Costa Rica	7	11	16	8	4
Croatia	1	1	-	-	5
Cuba	10	7	3	4	4
Cyprus	4	4	7	8	6
Czechoslovakia	12	5	13	18	22
Denmark	138	105	178	187	177
Dominica	-	-	-	-	-
Dominican Republic	14	18	19	18	24
Ecuador	4	12	16	13	9
Egypt	2	2	1	3	3
El Salvador	4	3	5	4	9
Estonia	-	-	-	-	2
Ethiopia	-	-	-	2	1
Faroe Islands	1	-	2	-	-
Fiji	1	1	1	4	1
Finland	71	62	111	135	159

Residence	1998	1999	2000	2001	2002
France	942	943	1,402	2,063	1,560
French Polynesia	-	2	-	-	1
Gabon	-	-	-	-	1
Georgia	1	1	7	7	8
Germany	1,325	1,393	2,255	3,691	2,561
Ghana	-	-	-	-	2
Gibraltar	2	1	7	15	11
Greece	15	6	13	10	16
Greenland	-	-	-	-	-
Grenada	-	-	-	-	-
Guatemala	7	7	5	7	9
Guyana	-	1	2	-	1
Hague	-	-	-	-	-
Haiti	2	1	1	1	-
Honduras	2	1	2	3	2
Hong Kong	169	146	194	267	288
Hungary	8	5	6	8	10
Iceland	4	6	7	8	10
India	49	54	48	96	73
Indonesia	15	16	12	18	16
Iraq	-	-	-	-	1
Iran	2	8	8	5	8
Ireland	83	69	76	135	107
Isle of Man	6	13	7	12	7
Israel	170	129	167	226	262
Italy	638	644	900	1,079	979
Jamaica	14	16	23	12	19
Japan	937	1,034	1,173	1,585	1,510
Jordan	2	2	-	6	9
Kenya	2	2	2	1	1
Kiribati	-	-	-	-	-
Korea, Dem. Republic of	1	-	1	-	2
Korea, Republic of	132	159	222	251	283
Kuwait	3	3	1	2	2
Latvia	6	4	-	1	1
Lebanon	5	2	4	6	2
Liberia	5	3	17	12	13
Libya	-	-	-	-	-
Liechtenstein	23	21	-	38	30
Lithuania	-	2	-	-	1
Luxembourg	34	20	86	47	59
Macau	1	1	-	3	2
Macedonia	-	-	-	-	2
Malaysia	19	10	18	17	24
Malta	-	1	1	-	1
Marshall Islands	1	-	-	-	-
Mauritius	-	3	-	1	3
Mexico	276	257	316	308	342
Micronesia	-	-	-	-	1
Moldova	1	-	-	-	1
Monaco	19	9	18	30	10
Morocco	-	1	4	2	1
Myanmar	-	1	-	-	-
Namibia	-	-	-	-	1
N. Mariana Island	-	1	-	-	-

TABLE 22 CONT.

TRADEMARKS REGISTERED TO RESIDENTS OF FOREIGN COUNTRIES (FY 1998- FY 2002)

Residence	1998	1999	2000	2001	2002
Netherlands	300	342	489	701	628
Netherlands Antilles	15	6	25	48	27
New Zealand	44	68	88	113	97
Nicaragua	1	2	1	1	6
Nigeria	2	2	11	17	7
Norway	41	53	112	86	100
Oman	-	-	-	-	-
Pakistan	1	1	2	6	10
Panama	24	24	34	28	41
Papua New Guinea	-	-	-	-	-
Paraguay	-	2	2	1	2
Peru	12	7	-	6	9
Philippines	10	13	10	12	12
Poland	9	7	14	7	20
Portugal	25	27	37	39	40
Romania	1	1	-	8	3
St. Kitts & Nevis	-	-	3	1	-
Saint Lucia	-	-	-	-	-
San Marino	-	-	3	-	-
Saudi Arabia	2	8	-	4	2
Scotland	1	1	5	23	10
Senegal	1	-	-	-	-
Seychelles	-	-	-	7	1
Sierra Leone	-	-	-	1	-
Singapore	49	34	44	76	82
Slovakia	1	3	2	1	-
Slovenia	8	3	4	15	5
South Africa	54	41	43	57	62
Russian Federation	8	14	37	35	23
Spain	279	280	263	391	474
Spratly Islands	-	-	-	-	-
Sri Lanka	3	4	5	5	9
Swaziland	-	1	-	2	-
Sweden	238	208	263	476	406
Switzerland	492	445	838	1,028	820
Syria	-	-	-	-	1
Taiwan	367	299	450	569	656
Thailand	20	15	24	42	43
Trinidad & Tobago	7	6	7	5	4
Tunisia	1	1	-	-	-
Turkey	12	13	7	35	35
Turks and Caicos Islands	2	11	6	12	9
Ukraine	-	-	-	3	4
United Arab Emirates	6	4	5	3	9
United Kingdom	1,264	1,108	1,531	2,260	1,803
Uruguay	2	1	1	2	12
Vanuatu	1	-	-	-	3
Vatican City	-	1	-	-	-
Venezuela	19	24	16	21	29
Vietnam	2	4	6	-	5
Western Samoa	-	-	-	-	1
Yemen	2	-	-	-	-
Yugoslavia	1	3	-	1	-
Zimbabwe	-	-	-	1	-
Other /1	14	7	10	26	27

- Represents zero.

1/ Country of origin information not available.

TABLE 23

SUMMARY OF CONTESTED TRADEMARK CASES

(Within the U.S. Patent and Trademark Office, as of September 30, 2002)

ACTIVITY	EX PARTE	CANCELLATIONS	USE	INTERFERENCE	OPPOSITION	TOTAL
Cases pending as of 9/30/02, total	**2,228**	**2,292**	**85**	**-**	**6,413**	**11,018**
Cases filed during FY 2002	**2,992**	**1,852**	**25**	**-**	**5,272**	**10,141**
Disposals during FY 2002, total	**3,186**	**1,668**	**20**	**-**	**4,763**	**9,637**
Before hearing	2,662	1,639	20	-	4,683	9,004
After hearing	524	29	-	-	80	633
Cases pending as of 9/30/02, total	**2,034**	**2,476**	**-**	**-**	**6,922**	**11,522**
Awaiting decision	41	1	-	-	9	51
In process before hearing /1	1,993	2,475	90	-	6,913	11,471
Requests for extension of time to oppose						**33,097**

- Represents zero
1/ Includes suspended cases.

TABLE 24

ACTIONS ON PETITIONS TO THE DIRECTOR OF THE USPTO
(FY 1998 - FY 2002)

NATURE OF PETITION	1998	1999	FN	2000	2001	2002
Patent matters						
Actions on patent petitions, total	**34,169**	**31,155**	/1	**33,386**	**43,062**	**54,066**
Acceptance of:						
Amendments filed after payment of issue fee	35	19		15	22	15
Late assignments	691	69		106	85	30
Late issue fees	-	-		-	1,332	1,676
Late priority papers	62	46		77	72	330
Access	16	9		24	4	6
Certificates of correction	16,044	17,583		14,111	22,157	31,776
Deferment of issue	22	52		68	25	21
Entity Status Change	816	569		888	986	836
Filing date	926	529		744	1,375	2,158
Interference	-	3		-	-	-
Make special:	-	-		-	-	-
Infringement/manufacture	4	-		-	-	3
Other	1,328	1,502		1,574	1,498	1,573
Miscellaneous	2,690	920		2,323	1,854	1,411
Maintenance fees	976	1,474		1,698	1,614	1,614
Public use	-	-		5	-	3
Reexamination proceedings	39	17		-	-	6
Restriction	73	75		73	42	102
Revivals	3,466	4,158		5,084	4,231	3,395
Rule 47 (37 CFR 1.47)	419	407		849	1,531	1,698
Supervisory authority	2,491	66		75	44	112
Suspend rules	724	861		942	875	1,052
Withdrawal of attorney	870	-		1,401	2,002	2,530
Withdrawal from issue	385	862		1,212	991	1,178
Change of inventorship	127	80		147	121	186
Withdrawals of holding of aband./pat. lapse	1,965	1,854		1,970	2,201	2,355
Trademark matters						
Actions on trademark petitions, total	**4,479**	**5,863**		**6,858**	**10,374**	**24,699**
Affidavits of Use and extensions	192	168		31	-	1
Decision by examiner	7	3		6	23	14
Filing date restorations /2	634	1,402		1,311	1,785	846
Grant application filing date	55	656		66	25	29
Inadvertently issued registrations	197	253		233	325	654
Interferences	1	-		2	1	2
Make special	124	160		157	199	133
Miscellaneous	170	76		40	23	40
Oppositions and extensions	9	30		-	6	3
Record documents affecting title	2	2		-	2	1
Reinstatements /3	1,307	1,501		2,130	2,043	6,304
Restore jurisdiction to examiner	3	10		3	2	2
Review board decisions	3	40		6	13	10
Revive	1,552	1,262		2,673	5,633	16,222
Section 7 correction/amendment	5	14		-	10	17
Section 9 renewal	4	6		3	13	14
Section 8 or 15	32	17		61	60	75
Section 44(e) Amendment *	-	131		102	183	317
Review Letter of Protest Decision *	-	5		3	8	4
Waive fees/refunds	182	127		31	20	11
Petitions awaiting action as of 9/30						
Patent matters	2,589	2,389		1,458	699	1,844
Trademark petitions awaiting response	74	22		158	503	2,197
Trademark petitions awaiting action	69	651		3,199	6,060	582
Trademark pending filing date issues *	-	-		189	24	12

- Represents zero.
/1 Correction to FY 1999 Report
/2 Trademark Applications entitled to a particular filing date; based on clear evidence of Office error.
/3 Trademark Applications restored to pendency; inadvertently abandoned by the Office.
** Not reported in previous years.*

TABLE 25

CASES IN LITIGATION

(Selected Courts of the United States, as of September 30, 2002)

	PATENTS	TRADEMARKS	TOTAL
United States District Courts			
Civil actions pending as of 9/30/01, total	7	3	10
Filed during FY 02	15	4	19
Disposals, total	12	3	15
Affirmed	2	1	3
Reversed	1	-	1
Remanded	1	-	1
Dismissed	5	1	6
Amicus/intervene	1	-	1
Transfer	2	1	3
Civil actions pending as of 9/30/02, total	**10**	**4**	**14**
United States Courts of Appeals /1			
Ex parte cases			
Cases pending as of 9/30/01	28	5	33
Cases filed during FY 02	33	19	52
Disposals, total	42	9	51
Affirmed	18	5	23
Reversed	1	0	1
Remanded	13	0	13
Dismissed	10	4	14
Transfer	-	-	-
Writs of mandamus:			
Granted	-	-	-
Granted-in-part	-	-	-
Denied	-	-	-
Dismissed	-	-	-
Total ex parte cases pending as of 9/30/02	**19**	**15**	**34**
Inter partes cases			
Cases pending as of 9/30/01	57	125	182
Cases filed during FY 02	18	13	31
Disposals, total	15	10	25
Affirmed	4	4	8
Reversed	0	3	3
Remanded	3	-	3
Dismissed	6	3	9
Amicus/intervene	2	-	2
Total inter partes cases pending as of 9/30/02	**60**	**128**	**188**
Total United States Courts of Appeals cases pending as of 9/30/02	**79**	**143**	**222**
Supreme Court			
Ex parte cases			
Cases pending as of 9/30/01	-	-	-
Cases filed during FY 02	5	-	5
Disposals, total	4	-	4
Cases pending as of 9/30/02, total	**1**	**-**	**1**
Notices of Suit filed in FY 2002	**4,334**	**8,162**	**12,496**

- Represents zero
1/ Includes Federal Circuit and others.

TABLE 26

PATENT CLASSIFICATION ACTIVITY
(FY 1998 - FY 2002)

ACTIVITY	1998	1999	2000	2001	2002
Original patents professionally reclassified - completed projects	100,474	82,944	53,437	39,209	19,621
Subclasses established	3,569	2,433	1,869	1,878	780
Reclassified patents clerically processed, total	**393,985**	**193,309**	**128,362**	**145,090**	**61,433**
Original U.S. patents	119,425	62,584	49,231	51,266	13,155
Cross-reference U.S. patents	189,957	97,615	70,302	84,611	38,868
Foreign patents	84,603	33,110	8,829	9,213	9,410

TABLE 27

SCIENTIFIC AND TECHNICAL INFORMATION CENTER ACTIVITY
(FY 2002)

ACTIVITY	QUANTITY
Prior Art Search Services Provided:	
Automated Prior Art Searches Completed	11,177
On-line and Manual Foreign Patent Searches Completed	2,476
Genetic Sequence Searches Completed	10,837
Number of Genetic Sequences Searched	41,568
CRF Submissions Processed	21,271
PLUS Searches Completed	11,417
Document Delivery Services Provided:	
Document Delivery/Interlibrary Loan Requests Processed	48,069
Documents Provided Using Electronic Tools	8,044
Copies of Foreign Patents Provided:	
Copies Purchased by the Public	960
Copies Provided to USPTO Staff	1,236
Foreign Patents Provided Using Electronic Tools	1,287
Information Assistance and Automation Services:	
One-on-One Examiner Assistance	16,891
Foreign Patents Assistance for Examiners and Public	4,652
Examiner Briefings	2,420
Web Pages Created	793
Translation Services Provided for Examiners:	
Written Translations of Documents	5,868
Number of Words Translated (Written)	12,513,212
Documents Orally Translated	7,549
Collection Usage and Growth:	
Print/Electronic NPL Collection Usage	206,258
Print Books/Subscriptions Purchased	4,467
Print/Microform Foreign Patents Added to Collections	7,896
Full Text Electronic Journal Titles Available	6,614
Full Text Electronic Book Titles Available	4,640
NPL Databases Available for Searching (est.)	1,231
Foreign Patent Databases/Web Sites Accessed	125

Glossary of Acronyms and Abbreviation List

GLOSSARY OF ACRONYMS AND ABBREVIATION LIST

AICPA – American Institute of Certified Public Accountants

AIPA – American Inventors Protection Act of 1999

ABC – Activity Based Cost Accounting

APEC – Asia Pacific Economic Corporation

CSRS – Civil Service Retirement System

C&A – Certification and Accreditation

DOC – U.S. Department of Commerce

DOL – U.S. Department of Labor

EAST – Examiner's Automated Search Tool

EFT – Electronic Funds Transfer

E-Gov – Electronic Government

EPO – European Patent Office

FAIR – Federal Activities Inventory Reform

FASAB – Federal Accounting Standards Advisory Board

FECA – Federal Employees Compensation Act

FERS – Federal Employees Retirement System

FICA – Federal Insurance Contributions Act

FMFIA – Federal Managers' Financial Integrity Act

FMS – Financial Management Service

FY – Fiscal Year

GAAP – Generally Accepted Accounting Principles

GSA – General Services Administration

IG – Inspector General

IP – Intellectual Property

IPEG – Intellectual Property Experts Group

IIPI – International Intellectual Property Institute

INTA – International Trademark Association

IT – Information Technology

ITAC – International Telework Association and Council

KSA – Knowledge, Skills, and Abilities

OBRA – Omnibus Budget and Reconciliation Act

OIG – Office of the Inspector General

OMB – Office of Management and Budget

PALM – Patent Application Location and Monitoring system

PBO – Performance Based Organization

PCT – Patent Cooperation Treaty

PDF – Portable Document Format

SCCRR – Standing Committee on Copyright and Related Rights

SFFAC – Statements of Federal Financial Accounting Concepts

SFFAS – Statements of Federal Financial Accounting Standards

SIRA – Search and Information Resources Administration

S&T – Science and Technology

TARR – Trademark Application Registration Retrieval system

TEAS – Trademark Electronic Application System

TESS – Trademark Electronic Search System

TICRS – Trademark Information Capture and Retrieval

TLT – Trademark Law Treaty

TMEP – Trademark Manual of Examining Procedure

TRAM – Trademark Reporting and Monitoring system

Treasury – U.S. Department of the Treasury

TRIPS – Trade Related Aspects of Intellectual Property

TTAB – Trademark Trial and Appeal Board

UPR – Utility, Plant and Reissue

U.S. – United States

U.S.C. – United States Code

USPTO – The United States Patent and Trademark Office

USTR – U.S. Trade Representative

WEST – Web-based Examiner Search Tool

WIPO – World Intellectual Property Organization

WTO – World Trade Organization

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